IAI TIMES

THURSDAY DECEMBER 3 1998

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Germany Mastermind behind economic policy

Page 3

Bülent Ecevit Old guard returns in Turkey Page 14

Today's surveys FT Auto, Turkish finance and industry Separate sections

WORLD NEWS

Jewish groups say France is delaying compensation

A bitter dispute erupted in Washington at the International conference on Holocaust assets Jewish groups accused France of dragging its heefs on compensation for artistic masterpieces stolen from victims of the Nazis. Page 16; Observer, Page 15

Turkish leader promises retorm Veteran Turkish centre-left leader Bülent Ecevit said he would press ahead with economic and social reform after being asked to form a government. European news, Page 2; The Koran and the sword, Page 14

Northern Ireland deal 'close' Northern Ireland's political leaders appeared close to a deal on cross border organisations to link the region and the Republic of land after weeks of talks." UK news, Page 12

Ell cosmetics row with US breaking The danger of friction between the US and the European Union over drugs and cosmetics trade grew after 10 EU nations voted against European Commission proposals for fighting BSE mad cow disease. World trade news, Page 6

Ban on four feed additives likely-European Union plans for a ban on four antibiotics used in animal feed seems certain to go ahead after winning the endorsement of 10 member states. World trade news, Page 6

Australia's aconomy defles Asia Australia's economy grew 5 per cent in the year to September, delying the Asian crisis to make it one of the fastest-growing -economies in the industrialised world. Page 16; Editorial Comment, Page 15

Biair seeks backing on defence UK prime minister Tony Blair will seek French backing for his proposal to give Europe a common defence capability, and hopes to complete an agreement on enhanced co-operation between

news, Page 2 " Warning from World Back The World Bank warned thatdeveloping countries faced a precarlous short-term outlook which demanded that policymakers in industrial countries did more to

UK and French to

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avert a global skimp. International news, Page 7 US anger over Chine arrest Discord between the US and China flared over the detention by Beijing of Xu Wenli, a veteran Chinese dissident who has led attempts to establish China's first opposition party. Asia-Pacific

Human rights leader held Egyptian police arrested the secretary-general of the country's main human rights organisation after accusations that the British embassy paid it to write a report which exposed police brutality. international news, Page 7

Brussels-plans new fraud office. The European Commission published plans for an independent. office to investigate fraud in European Union spending. European news, Page 2

Sales of new US homes rise Sales of new homes in the US rose in October as low mortgage rates and rebounding stock prices kept the housing market on course for a good year, the government said. US and Canadian news, Page 5

BUSINESS NEWS

Shares in Boeing fall heavily after warning on profits

Boeing shares fell heavily yesterday after the world's biggest aerospace group stung nvestors with sharply reduced profit predictions and a warning that Asia's aconomic crisis could last five years. Companies and Markets, Page 17; Worst may not be over, Page 15; Lex, Page 16

Total, the French oil group, launched a campaign to bolster shareholder support for its proposed takeover of PetroFina of Belgium. Doubts have arisen about cost savings and synergles between the two groups. Com-panies and Markets, Page 17; Lex, Page 16

Ducati, the Italian motorcycle company, is planning a stock market listing early next year as it continues a remarkable turnaround after being rescued from near collapse in 1996. Compenies and Markets, Page 17

George Chryssolouris, the chief executive of OTE, Greece's partly privatised telecoms operator, resigned after clashing with the government. European companies, Page 18

Sears Ruebuck, second biggest US store group, dashed hopes of a prosperous Christmes season when it delivered a profit warning for the final quarter. Comp and Markets, Page 17

Air France, the French national carrier, is likely to decide next year which of its two US partners Continental Airlines and Delta Air Lines - it will join forces with in an attempt to build a global . airline alliance. European companles, Page 18; Lex, Page 16

Deutsche Bank has agreed to pay DM bn (\$596m) for Crédit Lyon-nals-Belgium. The German group is the largest foreign bank in Italy, with considerable retail compenies, Page 18; Observer, Page 15:

Appropriate as france, is a sur-up all or part of its interest in the Septant avionics group under an agreement that will smooth the way to its privatisation next year. European companies, page 18

Rupert Mardochis efforts to penetrate the Italian pay television market suffered a setback when the Italian government unveiled proposals to prevent any single broadcaster controlfing more than 30 per cent of pay TV rights for soccer, international companies, Page 19

Cathay Pacific, Hong Kong carrier, has pulled out of discussions to take a stake in Philippoine Airlines Asia-Pacific compar 21; Observer, Page 15

The European Union will have a single power market dominated by gas-fired electricity generation within 20 years, according to a report. Trade, Page 8 ...

Missan, the Japanese car and truck group, is acceleral efforts to reduce its debt burden by selling assets and turning idle properties into cash-generating businesses. Asia-Pacific companies, Page 21

Euro Prices

A comprehensive statistical guide to the the currency zone, counting foreign

Schröder backs tax stance by Lafontaine

German chancellor's support for majority voting is blow to UK

doesn't mean it is not sensible, in a single market with a single cur-

Peter Norman and Raiph Atkins in An and Robert Poston in London

Gerhard Schröder, Germany's chancellor, yesterday threw his weight behind calls from Oskar afordaine his finance minister for the European Union to abandon unanimity in decisions on

His stand - outlined in an interview with the Financial Times - is a serious blow to Tony Blair, the British prime minister, who opposes majority woting on tax policy.

The British government has said the current requirement for unanimity on tax matters would allow the UK to block any EU moves toward tax barmonisation that it thought would be damag-

In the FT interview, Mr Schröder said majority voting on tax matters should be part of wider reforms of BU decision-making tied to enlargement. These reforms would not be

completed under Germany's presidency in the first half of next Although intended as a constructive contribution to the lebate over the EU's future, his

the tensions which surfaced this week between Mr Lafontaine and Gordon Brown, UK finance min-At a recent meeting of EU

comments are unlikely to calm

rency, to have better tax co-ordination," Mr Schröder said. We will never have a complete harmonisation because of differences in countries' tax bases. But

I must stress that the finance minister [Oskar Lafontaine] has the backing of the government when he demands stops in this Mr Lafontsine's proposal that

majority voting should be intro-duced for tax matters, "is not only the personal opinion of the finance minister. It is also the position of the government." Mr Lafontaine had said his remarks on Tuesday were "personal opinions" and not government policy.

The chancellor hoped his government's stance would not sour relations with the UK. Debate over long-term reform of the EU was inevitable, he said, and "all member states are bound to put forward their position in this debate on institutional reform". Mr Schröder described the heated debate in the UK over European tax harmonisation as bit artificial". Clearly

dismayed at some UR press

coverage, he added: "It is

finance ministers in Brussels, Mr inappropriate that the German finance minister and the German foreign minister should be pillo-Brown threatened to use the national veto to block tax mearied by the Daily Mail." sures hostile to British interests. "We know that there are differ-Germany was bearing a "douent opinions in Europe but that

ble burden" in Europe, Mr Schrö-Not only did it make a large net contribution to the RU budget, it also suffered from net

recipient countries offering "tax cases" that attracted business and employment away from Germany. The UK also had an interest in preventing "tax dumping" and unfair tax competition, he

Yesterday Mr Blair's spokesman made a thinly veiled attack on Mr Lafontaine, saying he would have been "very surprised" if Mr Brown had gone to a meeting of EU finance ministers to make a "personal statement" on tax policy, rather than reflecting his government's Mr Schröder's comments came

after the German cabinet agreed yesterday the outline programme for Germany's EU presidency which will focus on a European "jobs pact", the so-called Agenda 2000 reform of EU finances and agricultural policy and measure to make the union more "citizen friendly".

Italy seeks to defuse dispute, Page 2 Teaser Blair, Page 8



humanity during the 1995 occupation of the Moslem enclave of Srebrenk

Rover boss quits amid reports of board split

By Heig Simonian and David Wighton in London

Walter Hasselkus, chairman of BMW's troubled British subsidlart Boyer resigned unexpect. Sales figures for November are boardroom split at the German carmaker and worries about Rover triggered a sharp fall in RMW shares.

BMW stock fell by more than 5 per cent, dropping DM63 to close at DM1,142 amid reports of differences between Bernd Pischenrieder, BMW's chairman, who masterminded the Rover takeover, and Wolfgang Reitzie, the group's number two, who is believed to have been unenthusiastic about the deal.

Mr Hasselkus meanwhile came as Rover's shop stewards servative accounting principles. mingham, England, Longbridge resigned to shoulder responsibility for the poor performance of Rover in the fiercely competitive UK car market.

share remained depressed. per cent, exacerbating rising losses caused by the strong

Mr. Hasselkus, a BMW board member sent to sort out Rover's problems in September 1996, Will be replaced by Werner Samann. an engineer and academic who is relatively unknown outside the

Mr Hasselkus's resignation

agreed to a radical cost-cutting plan that should save £150m (\$247m) a year from 2000.

will eliminate overtime payments expected to show Rover's market and costly Saturday premiums by He denied any serious differshare fell to an all-time low of 6.6 on hours worked during a year.

The system, used by BMW in Germany, will give Rover greater flexibility in allocating labour during periods of peak demand without committing itself to costly overheads at slacker times.

The scheme should help to and 400 models. staunch Rover's spiralling losses. Analysts expect the company will lose about DM500m (\$293m) this year, based on BMW's con-

In an interview, Mr Pischetsrieder declined to give a 1998 forecast, but said the figure The flexible working scheme would be swollen by provisions viding a generous package, which for the job cuts.

moving to an "annualised work- ences within the BMW board In October, Rover's market, ing time account" system based over Rover and reasserted his tance cannot exceed 20 per cent personal commitment to the UK of the investment.

· He said the flexibility deal would allow BMW to invest an of small and medium cars to replace Rover's slow-selling 200

The investment, which remains dependent on government aid, would secure the future of

is Rover's largest factory, employing about 14,000 workers. Ministers are resigned to prosome industry observers believe could reach £200m. Under EU rules, financial assis-

The Rover 200 and 400 replace-

of Longbridge. Although the ramestimated £1.5bn in a new range shackle plant will build the new Mini, due in 2001, its future has been increasingly threatened by the declining sales of the 200 and

Rover's Longbridge plant in Bir- BMW reins in unruly charge, Page 20

Brussels launches investigation into \$600m plant fraud

By Peter Marsh in London

Rirropean Commission officials are investigating a suspected fraud involving DM1bn (\$594m) of excavating machines imported from Asia and sold throughout Europe, often with falsified safety

The machines, which are not intended for use in Europe and are made without essential safety features, come from Japan, indonesia and South Korea, which have been left with large amounts of unsold stock due to the region's economic crisis. They are often half the price of

orthodox equipment, lowering prices throughout Europe. At the heart of the fraud is a network of several hundred dealers and "middlemen" in the Netherlands, Britain, France and involvement of manufacturers.

which is required by European law. We are facing a massive case of fraud and anti-competitive behaviour but so far we have been able to do little about it," said one EU official. The machines have been built

for use in countries in south-east

Axia, which have less onerous

than the US and Europe, and do not include such features as spe cialised engine override controls or proper seat restraints. This could pose a danger over difficult terrain.

It is believed that in the past year some 5,000 construction machines, out of a total European market of 85,000, have been sold in Europe this way. According to officials, unauthorised dealers buy the machines from auctions, mainly in the Netherlands, and distribute them through other "traders", who can provide forgeries of the necessary Teruski Noda, managing direc-

tor of the European construction equipment division of Komatsu, the Japanese company which is the world's second-biggest maker of earth moving machinery and Germany. They are trading the has three large European plants, equipment, normally without the said the importing was "unfair". The unauthorised machines and often with forged documenta-tion covering health and safety, also passers by. could injure plant operators, and Equipment from Hitachi and

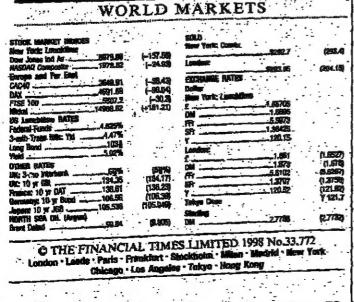
Kobelco of Japan and Daewoo and Samsung of Korea has been sold this way. The European Commission has

been unable to make much headway in tackling the problem because it lacks powers to take action in countries where checking safety documentation is left health and safety regulations to customs or health agencies.

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ENERGIS

Ecevit asked to form government

Bülent Ecevit, the veteran Turkish centre-left leader. yesterday vowed to press ahead with economic and social reform after being an election government". After a week of

consultations with the country's squabbling political parties. Süleyman Demirel, Turkish president, asked Mr Ecevit, 73, to cobble together an administration to run the country until early elections, community, Mr Ecevit spoke

But in a possible hint that overdue legislation to who have the last say in he still wanted to try to form elections could yet be strengthen the banking Turkish politics, have made a government together with deadline of 2000, Mr Ecevit said "it would be wrong to see this government as only

He said it would continue reforming the economy and would fight the mafia just like the cabinet led by Mesut Yilmaz, ousted last week in a no-confidence vote over corruption allegations. In a move likely to cheer Turkev's business

emerging markets such as Turkey face a squeeze on foreign lending.

Mr Ecevit, who served as vice-premier in the previous administration of Mr Yilmaz, emerged as the best compromise candidate for leading a caretaker ent despite the fact that his Democratic Left party is only the fourth-largest in the 550-seat parliament. This was mainly

postponed until their legal sector at a time when it clear they do not want a those two centre-right government led by the Islamist Virtue party, the largest in parliament.

In addition, the next two biggest parties - the centre right Motherland and True Path parties - were unable to agree on who should get the top job amid bitter personal rivalries between their respective leaders: Mr Yilmaz and Tansu Ciller. Turkey's first female prime

leaders. Talks start Mr Ecevit referred

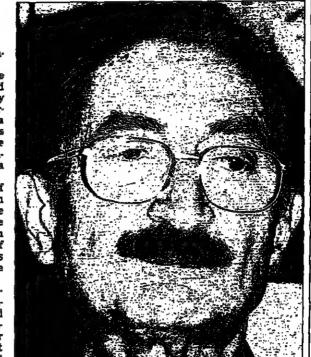
obliquely to the foreign policy crises facing Turkey. the most pressing of which is the stand-off over Italy's refusal to extradite Abdullah Ocalan, leader of the Kurdish PKK guerrilla group. He indicated that a weak government would

of the essence in completing

consultations with party

make Turkey vulnerable to pressure from abroad. "It is beneficial to have a determined parliament-backed government," he said. His mention

investments by the previous government to improve energy supplies could also be interpreted as a reference to a looming deadline next month for a decision on the construction of a pipeline to transport Caspian oil to western markets via Turkey.



A reforming nationalist

Ecevit backed Yilmaz's changes at home and has always been a hawk abroad

counted among Turkey's political dinosaurs, but he brings to the mission of further pursue its economic two big strengths: continuity

The antiquated image is evident not only in such his appointment as "the in his actions than in his idiosyncrasies as his refined good story the market is English learned at an elite looking for". Not only would American college in Istanbul, his talent for poetry and ness community, but it his old-world manners. The 73-year-old veteran was ers and investors at a time elected to parliament four when Turkey most needs fordecades ago and has already eign capital to face down the had two stints as prime min- double threat of slowing ister - first riding to power growth and a squeeze on a wave of public enthusiasm in the early 1970s.

With their deal this week on unwieldy.

themselves at least - the last euro-11's diplomatic team.

European Commission, agreed by finance ministers

which at one stage foared it on Tuesday accepts would be marginalised in participation of the external representation, to Commission at both G7

Now they have to sell their also says its role will be no

how to represent the euro

European Union countries

of the big issues that needed

resolution before the launch

of the single currency in

first join the new single

currency, and a system to

ensure fiscal discipline have

long been settled, but the

politically sensitive issue of

the curo-zone's external

On Tuesday, EU finance

which resolved differences

between large and small

countries and allowed the

organisations such as the

industrialised nations and

the International Monetary

The problem is that the

euro-zone scheme envisages

international meetings to

Group of Seven most president.

declare a "good result".

ministers agreed a pact unwieldy

representation had been left

Which countries would

have resolved

continuity. Not only did he support the last coalition until the bitter end, but all the evidence is that he will prime minister-designate reforms and support its army-backed fight against organised crime. A stockbroker described

gations last week, he offers

it cheer the Turkish busiwould reassure foreign lendon credit for emerging mar-

But there is something There is, of course, no here and now about him, guarantee that he will be too. As vice-premier in the able to form a government. administration of Mesut Yil- even if he is the best commaz until it collapsed under promise choice. His Demothe weight of corruption alle- cratic Left party, with 61

EXTERNAL REPRESENTATION OF THE EURO-ZONE COUNTRIES

EU finds a way to

present the euro-11

the Commission from the

The Commission had earlier

suggested a "trinity" of the

European Central Bank, the

president of the euro-11 and

The final communique

US feels a larger

EU presence will

make meetings

meetings and the IMF. but

smallest of any party of note. On top of that, he wants to include in his cabinet Mr Yilmaz and Tansu Ciller, the leaders of report on Turkey's memberthe two larger centre-right parties, but they detest each

he is of a more nationalistic bent than Mr Yilmaz, who in spite of his emotional outbursts, was more moderate rhetoric.

in one of his poems. Mr Ecevit had this to say of the Greeks. Turkey's longstandbid to join the European Union: ". . . The wild spirit flowing in our veins is the same. We have cursed each other. But there is still love within us."

But he has always been a hawk on Cyprus, ever since he ordered the 1974 intervention by the Turkish armed forces to counter a Greek and rational it seems Cypriot coup. He did so after failing to secure British and

tus quo on the island.

Last month, days after the European Commission had issued a more conciliatory ship bid, he called for a review of Turkey's customs union with the EU on the On the international front grounds that the relationship was turning into a one-way street.

It is this combination of patriotic nationalism with reformist rhetoric on the economy that would make him a viable longer-term prime minister in the eyes of many should early elections planned for April 18 be called off.
"Then with this over-

whelming support the country could decide to wait until 2000 [the constitutional deadline for the next poll) for new elections and that would bring stability," enthuses a senior western diplomat, "It's so reasonable unlikely – but everyday you are surprised in Turkey."

TAX HARMONISATION

Italy seeks to defuse dispute over policy

make meetings should not be excluded. Tuesday's deal envisages a One solution floated place at the table for the beyond the continent, among member countries president of the euro-11. If last month was to exclude the president comes from a non-G7 state, he or she would attend in addition to representatives of France, basis of consent from all member states.

However G7 members will "for the sake of greater continuity" provide support for the euro-11 president on a rotating basis for a term of office of one year. This is likely to mean that Germany, holder of the EU presidency in the first half of next year, will assist Finland when it assumes the presidency in the second

Germany and Italy.

half of 1998. France, president from January to July of 2000. would provide what some are calling the "grandfathering" role to Portugal, which takes office in the back half

of that year. The US has made no comments on the proposed solution.

plan to other participants in more than to "provide assistance" to the euro-11 EU officials hope, however, the Americans will A bigger issue concerned not want to cause political which countries should play problems for European countries ahead of monetary the lead roles at international meetings. Of the union and will therefore euro-11 only France, finding extru seats at Germany and Italy are G7 last for a few years.

members. accommodate small they really would be finance minister, is expected to use a trip to Canada and the presidency of the group.

We akened if smaller to use a trip to Canada and the US this week to press the surrounding tax barmonisation. They feared their Oskar Lafontaine, German

many's finance minister, for vidual governments to Italy yesterday sought to rate of company tax had mon system" would co-exist defuse a growing row over been exaggerated by newspa-alongside established tax policy among its Euro- pers. But he argued such a national systems of company pean Union partners by move would be "wrong in tax. This would allow comlaunching a plan to harmon- any event because it could panies to decide for themise company taxation eradually across Europe on the of EU integration".

In an attempt to get agreement between the UK and Germany over EU tax policy. Italy launched a plan to create a common system of company taxation across Europe, leaving it to each government to decide the rate at which the tax should be levied in its own country. In an interview with the Financial Times, Vincenzo Visco, Italy's finance minister, appeared sympathetic to British opposition to the creation of a minimum rate of

and, above all, hardly feasi-Mr Visco said calls by which the common EU tax is

company taxation across

Europe, saying such a move

was "untimely, questionable

the setting of a minimum decide. The "European comthreaten the entire proc He also showed strong

support for a statement earlier this week by Gordon Brown, UK finance minister, that there was no question of adopting a qualified majority vote system for tax policy. "Any change on tax policy needs to be made with the unanimous support of all states. Mr Visco said he has started to present plans for a "common system" of company tax and accounting in the EU which Italian government officials believe is being viewed favourably by the UK government.

Under the plan, the EU would develop a company taxation system with a uniform tax base across all. Oskar Lafontaine, Ger- levied would be left to indi-

selves which of the two the EU or the national system - to choose Mr Visco believes the

"common European system" would have significant accounting benefits in the short term for, say, a UK company with plant and investments in France and Germany. "Although a company would be paying different rates of the common European tax in each couptry, its accounting costs would be reduced because it would be operating under a

uniform tax code," he said. Mr Visco argued that under his proposal, growing economic integration in Europe would gradually lead to a common system of tax across Europe, "What we member states. The rate at have to avoid at all costs is a system being imposed in haste from the top down."

Plans fall short agree to a deal which is in any case only expected to last for a few years

tion in the European Union. it has been easy to lose sight of what is on the table for discussion. The proposals that have been made are limited and fall well short of

The tax package the Euro-pean Commission proposed at the end of last year aims to iron out distortions to the single market created by a minimum rate of 15 per "harmful" tax competition cent prevails but there are between member states. It no plans to harmonise rates

expanding 65-point code of other than those on energy tion, which commits member states to phasing out tax rates of duty charged on sectors or regions that lure inward investment at the expense of neighbouring

tive proposal for a minimum 20 per cent withholding tax on income from the savings and investments of non-residents. At the moment 11 of dent. This would require EU for taxation decisions, a goal the EUs 15 member states countries to totally redraft recently embraced by the do not tax interest on the their social security systems. German and French finance savings of individuals based he said.

The last element is a proposed law to make it easier to transfer interest and royalties across borders without That, in spite of some of

the more lurid stories this week, is as far as current activity by the Commission extends. On value added tax, further.

Nor are excise duties, spite of the hugely disparate alcohol and cigarettes, the mission proposed extending Commission has chosen not to pursue earlier proposals to bring the rates more into

lucome tax has never been on the agenda and is never mission yesterday acknowllikely to be - a point reiter- edged that it had not given ated yesterday by Jacques up its long-term ambition of Santer, Commission presi- ending the unanimity rule

Tan Monti tax package Proposal for a directive imposing a minimum 20% withoking tax on inconfron sevings and investment.

 Proposal for a directive to eliminate withoiding toxes on payments of interest and royalises between associated companies of different member states. Voluntary Code of Conduct on busin Voluntary Code of Conduct on busin taxation - wined, at eliminating 'under tax competition by geiding rid of the distortions created by lower tax regim granted to specific sectors or regions.

Commission tax proposals Energy boss - proposals to set minimum terets of texation on energy products including coal, gas and

VAT - the minimum standard rate is fixed at 15%, but with many econopies There are no place to bermonies rates

However, there is no rea-

son why other areas of direct taxation - such as corporation tax - should not one day be put up for harmonisation. Before the last rewrite of the EU treaty, the Comqualified majority voting into the tax field - proposals that were shot down by all but three member states.

In spite of this, the Com-

UK and France to hammer out defence issues

Tony Blair, UK prime minister, will today seek to enlist French support for his proposal to give Europe a common defence capability. and finalise an agreement on enhanced co-operation between UK and French military forces.

At an Anglo-French sum-mit, the prime minister will seek to resolve differences over how a European defence arm would be accountable to the European

French and British defence and foreign ministers met for three hours of talks in Paris to prepare for the summit yesterday. However, the summit in St

Malo risks being overshadowed by the protracted dispute over possible harmonisation of taxes. Oskar inance minister, and Domi-French counterpart, have both voiced support for majority voting on tax policy

Mr Blair, keen to help shape the future direction of Europe despite the UK's sis management. There will decision not to join the Euro- also be agreement on a joint pean single currency next military command. month, is expected to press for the abolition of the Western European Union. Europe's embryonic defence

The UK foreign office has argued the WEU's military role should pass to Nato. while political functions would be subsumed in a new fourth pillar of EU compe-

historically favoured placing a common defence capability in the existing second pillar relating to foreign and security policy.

listermind

Electronic Co

Mr Blair's proposal would allow Europe, under the authority of Nato, to respond independently of the US to deploy military forces quickly in response to crises such as those in Bosnia and Kosovo.

The prime minister's official spokesman said Anglo-French co-operation on defence would be influential because the two countries were the only EU member states with nuclear capabilities and seats on the UN security council.

"It is widely accepted that we pack most of the EU's conventional military punch. We and the French have been looking at achieving a stronger and more coherent Lafontaine, Germany's voice on international affairs and combining this with an nique Strauss-Kahn, his ability to back it up with military force if necessary."

Mr Blair and Jacques Chirac, French president, are to sign letters of intent allowing UK and French military forces to collaborate on cri-

Separately, the UK and French governments will announce further diplomatic co-operation in Africa.

There will also be collaboration on tax measures to promote research and development in small and medium-sized businesses, and joint action to tackle the potential impact of the millennium bug on the channel

NEWS DIGEST

BRUSSELS STEPS UP CORRUPTION FIGHT

Commission plans new independent fraud office

The European Commission yesterday published plans for a new independent office to investigate fraud in European Union spending, in response to pressure from the Euro-

pean parliament to step up the fight against corruption. Jacques Santer, Commission president, bowed to parliament demands in October to set up such a unit, amid controversy over alleged fraud in some programmes run by the EU's Brussels-based executive.

The new office would "complement and reinforce" the work of Uclar, the Commission's existing anti-fraud unit. But the Commission would have no influence on its conduct. Members of the European parliament claimed Uclat's ability to investigate Brussels staff was sometimes compromised by its link with the Commission.

The new office would carry out both external investigations - into spending in the EU's common agricultural policy and structural funds - and internal probes into EU organisations. A nine-member management board would include six independent experts, two Commission representatives, and one from the Court of Auditors, the EU's accounting watchdog. Neil Buckley, Brussels

DEUTSCHE POST

Bonn to approve Postbank sale

The German government is expected shortly to approve the sale of Postbank, the postal savings bank, to Deutsche Post, the acquisitive mail distribution company, in a move which would bring a long-running debate about the two state-owned institutions full circle.

The finance ministry is believed to support the deal as a means of guaranteeing income from the sale of Postbank, which had been earmarked for privatisation by the previous centre-right administration.

Raising money through an initial public offering of shares is seen as more uncertain due to volatility on the financial

Opposition parties condemned a sale to Deutsche Post as "a move backwards". They claimed the government would unravel the original strategy of breaking up the old iederal postal service into three parts - telecommunica-tions, mail distribution and banking services.

Deutsche Post, which is due to be privatised in 2000, has long coveted the bank and in 1995 launched a bid for Postbank which, until now, has successfully defended its independence. As well as sharing common roots, the two companies have operational ties through Postbank's use of Deutsche Post's 15,000 branches.

Deutsche Post has made several big acquisitions this year as part of a drive towards becoming a big European mail delivery company. Frederick Stüdemann, Bonn

NATO EXPANSION

Netherlands ratifies link

The Netherlands yesterday ratified Nato membership for Poland, Hungary and the Czech Republic, clearing the way for expansion of the western military alliance into eastern Europe.

The Netherlands was the last Nato country to ratify the link for the new members. Apart from the Greens, all political parties in the Dutch upper house welcomed the expansion as a stimulus for

democracy in central and eastern Europe. Jozias van Aartsen, foreign minister, ruled out membership for Slovenia and Romania until the new members were successfully incorporated. Poland, Hungary and the Czech Republic will be made full Nato members at a Washington summit next April, marking the 50th anniver-

sary of the alliance. Slovenia and Romania are seen as frontrunners in the next round of Nato expansion. Estonia, Latvia, Lithuania, as well as Bulgarla and Slovakia, are also vying for membership. Reuters, The Hague



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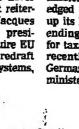
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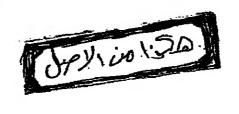
wholesale harmonisation.

First, a voluntary and conduct on business taxa- products, being tackled. In breaks granted to specific

countries. Second, there is a legisla-

valuable revenues. the risk of double taxation.





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Mastermind behind policy

By Wolfgang Münchau and Frederick Stüdemann in Benn

Oskar - Lafontaine, the German finance minister. may be the most visible face of Germany's new assertive economic policy. But Heiner Plassbeck is the true mastermind behind the policy shift. A well known neo-Keynes-ian economist, Mr Flassbeck occupies the key position of state secretary in charge of international economic policy. He is Germany's most influential economist today. Mr Flassbeck, a Saarlander like Mr Lafontaine, has even been tipped to succeed Hans Tietmeyer as president of the Bundesbank, although central bankers wonder whether the rumours originated from Mr Flassbeck's friends or his enemies

In an interview with the Financial Times, his first since coming to Bonn in October, Mr Flassbeck laid out the German govern-ment's economic policy in detail. He warned of an economic slowdown in Europe, and advocated tight fiscal and relaxed monetary policies. He spoke out against unfair tax competition in Europe, and explained why stable exchange rates between the euro and other international currencies were good for the world

economy.

Speaking from his office in Bonn, he sald policymakers should be prepared for the economic slowdown in Europe as a result of global financial turmoil. He warned that Europe should not repeat the mistakes of the early and mid-1990s, when fiscal and monetary policy were badly co-ordinated among the European Union

He said EU countries had made solid progress in deficit reduction. "From the fiscal side, much is done. That leaves monetary policy. If we have a slowdown of real prices below the target, any known concept of monetary are signals for falls in inter-

reports that the German government planned to relax fiscal policy. "There has been a big misunderstanding. I never favoured a fiscal policy expansion in the first round. It is always only as an instrument of the very He said moderate wage

growth trends in the western that inflation remained low. "If you look at the US or at-Europe in the past, you see a very strong correlation between unit labour costs and prices. If unit labour costs remain flat, the danger of an outbreak of inflation real inflation not some erratic price movement - is extremely low. In such a big, closed economy, it is close to zero in my opinion."

Mr Flassbeck left no doubt that the new German government remains a strong advocate of stability in the value of money. But he used a wider definition of stability activity - which we are now that includes both price and facing - and if additionally exchange rate stability. Ecowe have a undershooting of namic and monetary union in Europe was a good examlearnt the lesson. We are closing the biggest casino -But he firmly denied the exchange market - in



grinds to a halt, pressure grow on Europe to reduce its large current account surplus and absorb third-country exports. "We have the alternative between exchange rate appreciation or more growth in Europe. It is quite clear which one is the better option. If you think of a major apprecia-tion of the curo, combined with weakening economic growth, that would be disastrous not only for Europe.

Mr Flassbeck said one of the problems of the world economy was the synchronisation of the economic cycle" between the US and Europe. He said it was inconsistent for people to argue that inflation is bad under any circumstances while at the same advocating depreciation as a remedy against asymmetric shocks. Inflation and depreciation were mirror images, "Neither inflation nor

but for the US too."

depreciation is going to help one bit. It is a really strange split of consciousness that people talk about the

Europe forever on January

ful instrument and about inflation as the worst thing that could possibly happen This is not consistent at all." He played down Anglo-German disagreements over tax harmonisation, insisting ment was not proposing the adoption of unified tax systems. "There are a lot of misunderstandings in the UK about tax harmonisation. We do not say that we can-not have different kinds of tax systems and different structures of tax systems. But we should avoid compe tition to improve the attractiveness of a certain region

as a site for investment by simply cutting tax rates." Some observers in Germany predicted that Messrs Lafontaine and Flassbeck would moderate their positions once they faced the pressures of office. They may speak in softer tones these days but Mr Flassbeck left no doubt that Germany supported much closer pol icy co-ordination that it did in the past - among European governments, between governments and the European Central Bank, and within the Group of Seven

leading industrialised coun-

Nato soldiers capture MF gives Bosnian Serb general glimmer of hope

By Gordon Cramb in The Hague and Guy Dismore in Belgrade

Nato peacekeepers yesterday crimes against humanity during the 1985 occupation of the Moslem enclave of

Gen Radislav Krstic was on a secret list of indictments granted by judges of the international criminal tribunal for the former Yugoslavia in The Hague. He is only the tourth participant in the Yugoslav conflict to have been held as a result of a so-called scaled Serbia, in Belgrade,

indictment, where the accused is unaware until his arrest that he faces charges. He is also among the highest ranking suspects to be held. Gen Kratic is believed to have played a key role in the mmer of 1995 when Bosnian Serb forces captured the Moslem-held town of Srebrenica, which had been

graves, since excavated by the war crimes tribunal.

of Gen Ratko Mladic, the former chief of the Bosnian Serb army, who is also wanted in The Hague. Gen Krstic would be in a position to clarify what UN prosecutors believe was a chain of command that led from the Serbian footsoldiers who conducted the massacres in Milosevic, then president of

Nato sources said the general was seized in the eastero sector of Bosnia, an area under the control of US US policy towards Mr Milosevic, now president of fed-

Over 7,000 Moslem men are mer Yngoslavia stand pubstill unaccounted for. Wit-licly indicted international nesses say many were exe-cuted and dumped in mass issued for eight, including Radovan Karadzic and Gen Mladic, the then political and military leaders of the Bosnian Serbs.

Javier Solana, Nato secretary-general, described Gen Krstic's detention as a move which would "contribute to the continued consolidation of the peace in Bosnia and Hercegovina".

Judge Gabrielle Kirk McDonald. tribunal president, said it was ready to try Srebrenica up to Slobodan not only the generals but also Mr Karadic. "There is no statute of limitations, so at some point I believe he

will be tried." The UN judicial entity, with a budget this year of \$54.8m, had added a second also follows a hardening of and third courtroom to speed lishment in 1993 it has A total of 55 people of which all but one are in

Moscow with top government officials. At the end of a meeting with Yevgeny Primakov, the Russian prime minister, Michel Camdessus said: " solute the efforts of the government. I am certain we will be able in the next few weeks and months to arrive at very solid arrangements." He went on to say that "the

International Monetary

Russia early next year, after

two days of crisis talks in

government is on the right His comments follow warnings by Russian ministers in the last few days of triggered by printing money to fill the budget deficit if the country failed to reach agreement for new support

from the IMF and other international organisations, meeting with Mr Camdessus after frustration with what he considered excessive of an IMF technical mission last month. The IMF bas held back on providing a \$1.3bn loan due to be paid in September as part of a \$15.1bn emergency package agreed in July, in response to concern over the new government's commitment to adequate fiscal and budgetary reform. A further sum month and the remainder during 1999.

Augusto Longz-Carles, a senior economist with Lehestimated yesterday that financial support next year both to finance repayments due on its existing IMF loans, and to provide the organisation's "seal of approval" which would open minister announced a tax other international debts in said if the Irish are "afraid of relief package of 12581m. an orderly fashion.

Dublin to legislate on corporate tax cuts

Ireland yesterday signalled it would oppose European tic tax policy with Charlie McCreevy, fmance minister, announcing plans to enshrine future corporation

tax cuts in legislation. part of the 1999-2000 budget, represents a pre-emptive strike by the Irish, who are concerned that the Germans and other member states opposed to "tax dumping" will seek to unravel Dublin's bilateral tax deal struck with the European Commission in

Mr McCreevy said standard corporate tax, currently at 32 per cent, would be reduced to 28 per cent and in equivalent amounts in each of the subsequent four years

2008. He said he was legislat-ing for future tax cuts in the 1999 finance bill "in order to provide certainty for the

Ireland has a 10 per cent preferential tax rate for manufacturing and financial services and has agreed with the Commission to adopt a

But Dublin has been one of the main targets of the new German government's assault on unfair tax competition within the EU.

propean Central Bank, Mr McCreevy announced an expansionary budget, with current spending up 4 per cent and capital spending increased by 30 per cent. Earlier this week, Wim Duisenberg, ECB chairman,

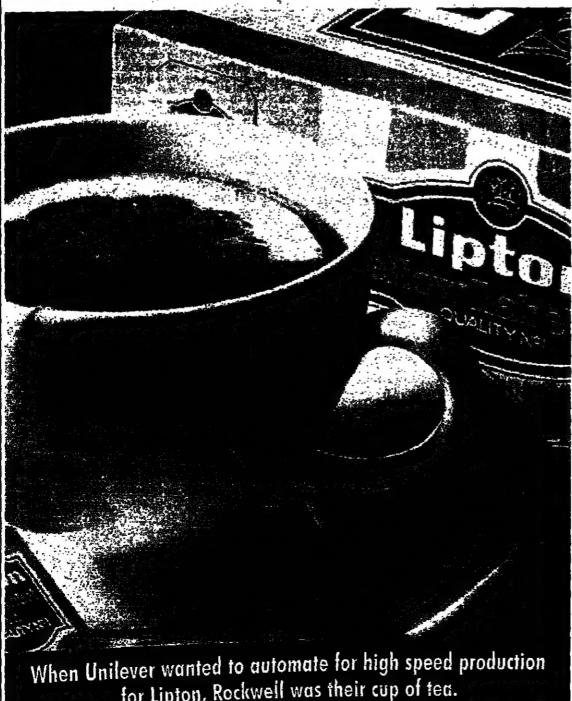
they realise that, and they can no longer use monetary policy to correct that, they will have to resort to other

Michael Noonan, finance spokesman of the Fine Gael opposition party, warned the government it was "steering a very dangerous course, eering an economy which is already moving like a bush fire".

> With tax receipts at record levels. Mr McCreevy was able to announce the first ever surplus to increase current spending by 4 per cent to I£2.3bn (\$3.3bn). Capital spending is increased to IL1.4bn, leaving a general government surplus of 1.7 per cent of gross national product. While income tax remains unchanged, the

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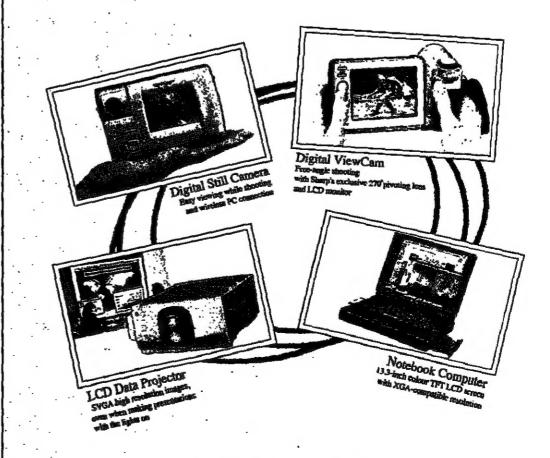


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China, US at odds over arrest of top dissident

Discord between the US and China flared yesterday over the detention of Xu Wenli, a veteran Chinese dissident who has led attempts to establish China's first oppo-

Beijing called on foreign countries not to interfere in its internal affairs, in a clear reference to Washington, which earlier criticised Mr Xu's detention. "We view his detention for peacefully exercising fundamental freedoms guaranteed by international human rights instruments as a serious step in the wrong direction." said James Rubin, spokesman for the US State Depart-

China's foreign ministry suggested that Mr Xu, who has been detained several

have harmed national security and his acts have violated relevant criminal codes of the People's Republic of China," the ministry

the US and China on human rights stands in contrast to the optimism of just two months ago, when China signed the United Nations covenant on civil and politiirritant in a bilateral relationship which has deteriorated markedly since President Bill Clinton's successful visit to China in the sum-

include US concern over China's growing trade surplus. and a perception in Wash ington that Beijing has recently erected several

Such changes could see

greater private sector

involvement, through priva-

tisation of public services

revamp of the human

resources management to

create a more streamlined

Mr Leung has offered to

repay the difference, but the

Departments have

been accused of

inefficiency and

mismanagement

integrity of senior officials

The Hong Kong Transition

Report, an ongoing survey

conducted by three universi-

ties, found that the rates of satisfaction with top govern-

ment officials had slumped

Even Anson Chap, who

malingering,

remains tarnished

and less bureaucratic body.



nies in China's marketplace. The detention of Mr Xu as part of a nationwide round-up of the office holders of the Chinese Democratic party on Monday also appeared to signal the start of a tougher line on political activism. China has permit-

debate this year on democratic reforms, while thwarting any attempt to set up opposition parties. Now it seems that Beijing's tolerance for dissenting voices may be running out.

The round-up of Mr Xu and 10 other democracy

Nearly 200 issued a letter appealing for the release of Mr Xu and two other important party members, Qin Yongmin and Wang Youcai. Mr Xu, 55, was the party cell chief in Beijing and Tianjin, a northern port city. Mr Qin

charges of plotting to overthrow the state. The Information Centre of Human Rights and Democracy in China, a Hong Kong based organisation, said 17 activists would go on hunger strike in various parts of the country to protest against

Public faith wanes in HK civil service

Hong Kong's civil service, a cornerstone of stability during the territory's return and more outsourcing, and a from British rule to Chinese sovereignty last year, is coming under attack with surveys showing waning public confidence in the body.

Criticism is coming from ingly disenchanted with the all quarters, including inside civil service. Confidence was the service itself. The government's auditor, in a befty set of reports late last month, charged some departments with malingering. inefficiency and mismanage

Checks on staff found that almost half of the 85 water meter readers turned up for work after their official start time, and seven had lied in clocking on. Adding elongated breaks and early finishes, the average employee worked a 4'1-hour day. Malingerers were also uncovered in the census and supplies departments.

While these represent a small part of the 180,000strong service, public outrage has been sharpened by its immunity from recession.

Unemployment in Hong Kong is at a 17-year high of vants have held on to their "iron rice-bowls", or jobs for life. Pay cuts affecting investment bankers, middle munagers and shop assistants are not on the agenda.

This has rankled with a number of business chlefs. who would like to see the government take the lead in pay and staff cuts. A limp precedent was set by Hongong Telecom, one of the biggest private employers: it proposed a 10 per cent pay

cut but then backed down. The government has set each department a target of per cent productivity improvements over three years. "They recognise the need to chapge, and change very significantly, and they Nigel Knight, partner at PriceWaterhouseCooper with responsibility for public sector consultancy in Asia.

The Hong Kong government made a profit of some HK\$350m (US\$45.2m) from its purchases of futures and options contracts, it was revealed yesterday.

The purchases were made when the government launched its unprecedented foray into the stock market August, spending HK\$118.1bn on shares.

While it has subsequently The public is also increasdisclosed the make-up and cost of its share portfolio, no most recently dented by revdetails were given about elations that Andrew Leung. futures purchases, though director of social welfare. later it admitted buying detoured to London on a some 48,000 futures and first class air ticket on the options contracts. way to a seminar in Israel. All positions have since

been closed, netting a profit of HK\$350m. The biggest holding was in August HSI futures, of which the government bought 36.935. The futures market was in

the spotlight during August for its integral role in the By attacking the currency. which invariably sent the stock market lower, speculators were able to profit from yet ready for securities' futures positions which bet

benchmark Hang Seng

The government sought to frustrate this ploy by shoring up the stock market. while higher interest rates automatically triggered by Hong Kong dollar weakness under the currency board mechanism which pegs it to the US dollar - raised the cost of borrowing.

 China's planned securities law would ban banks from trading on the securities market, the official Shanghai Securities News said yesterday, Reuters reports from Shanghai. The Asian financial crisis

had shown the wisdom of

barring banks from trading in securities, the newspaper quoted China's parliamentary chief Li Peng as saying. There will be unfair competition if banks participate in trading on the securities market because hanks have large amounts of money speculators' "double play", while retail investors' funds are limited," he said. Lawmakers had agreed China's fledgling markets were not

Futures foray | Tamil Tigers' leads to profit offer welcomed

senior Sri Lankan minister has welcomed as leader of the Liberation Tigers of Tamil Eelam, the guerrilla force against which the Sri Lankan army is fighting in the island's

minister of justice and constitutional affairs, said in New Delhi that the Sri Lankan government was willing to talk with the Tamil Tigers and would not insist on a Tiger ceasefire

But, while Mr Peiris said the government would welcome a third country as a "facilitator" to such talks, it call for third-party "media-

"The gap appears to be between mediation and facilthat agreeing some common formula for third-party help might not be "unbridgeable". the UK, have offered their the island's conflict.

The People's Alliance government of Chandrika "promising" the offer of Kumaratunga opened talks mediated talks made last with the Tamil Tigers soon week by V. Prabhakaran, after taking office in 1994, but negotiations broke down the next year.

The government has tabled a revised constitution to address the Tamil minority's grievances, but failed to G.L. Peiris, Sri Lanka's win opposition party sup-

• Sri Lanka's ethnic war has made the economy in its northern province shrink, pulling down the country's overall growth rate, the United Nations Development Programme says, Reuters reports from Colombo.

In its National Human Development Report on Sri Lanka, released yesterday, rejected Mr Prabhakaran's the UNDP said the conflict cost the economy at least 1 per cent growth a year. "The size of the overall

economy of the northern | the business leaders' forum, itation," he declared, adding province shrank from \$350m in 1990 to \$250m in 1995." the report said. "This represented a negative annual Several countries, including average growth of 6.2 per

Anwar driver claims he was sexual 'slave'

former chauffeur of Anwar Ibrahim testified yesterday that he had been the homosexual slave" of the former Malaysian deputy prime minister. It was the most damaging testimony to date in the trial of the man who had been chosen to one day lead Malaysia.

In the name of Allah, Azizan Abu Bakar told the court, he stood by everything he had said in a sworn statement in 1997. when Mr Anwar was still in

Mr Azizan had previously retracted the allegations, but police officers have testified that they pressed him to do so on orders from Mr Anwar. "I have become a victim of homosexual acts by Anwar...This heinous act was committed several times in 1992 against my will_It regularly took place in

luxury hotels ... without the knowledge of the public and his wife," said Mr Azizan. who drove for Mr Anwar's wife, Wan Azizah Wan Ismail, and family from 1999 through 1992.

"I had on several occasions tried to resist. His me great mental stress. The feeling of guilt finally overcame me whenever I had to gaze on Azizah, who had such high moral character. Finally I made the decision to stop being a homosexual slave to this man, Anwar Ibrahim, whom

regard as an animal." Witnesses in the court said Mr Anwar, who has repeatedly gestured to reporters and his family Azizan said.

five charges of sexual misconduct and five related charges of abuse of power. He denies all of them, claiming they are part of a political conspiracy to him from prevent challenging the 17-year rule Mahathir Mohamad.

Thousands of Malaysians have reacted to the charges against Mr Anwar by taking unprecedented demonstrations calling for justice and an end to Dr Mahathir's rule. Although the street protests have all but subsided under sometimes violent police pressure, the case has

divided the nation and split the ruling UMNO party. Mr Anwar was detained incommunicado for nine days and then emerged bruised and with a black eye, alleging police brutality, while one intelligence officer has admitted he might lie under oath if instructed to

do so by his superiors. Although two other men have pleaded guilty to allowing Mr Anwar to sodomise them, their appeal. The wife of one of was forced to make the

Mr Azizan insisted he spoke of his own accord: "I made this statement voluntarily without any form of prompting, urging or

the sake of the community, the nation. Amen," Mr

India tourism 'could develop 8m jobs'

Travel and tourism in India could create 8m jobs and account for 12 per cent of the country's exports by 2010 if the country implements a long-term strategy.

This aim was set out by Geoffrey Lipman, president when speaking at the World better." Mr Lipman added Economic Forum in New

Travel and tourism order to focus on training already accounted for 10 per developing infrastructure cent of India's exports and and liberalising airlines.

ing faster than the world average, Mr Lipman

A WTTC study had found that the industry's contribution to exports was expected (\$5.4bn) to Rs1,600bn by the year 2010.

WSE bo

"This is not a leisure purof the World Travel and suit of the elite, it is a busi-Tourism Council (WTTC), ness that drives economies He called on India to involve the private sector, in

Japan's finance watchdog starts to sharpen up its teeth

The supervisory agency has infuriated many banks and one of them, Nippon Credit Bank, has threatened legal action. But the agency's biggest test could come soon, writes Gillian Tett

futures trading, he said.

heads the civil service and ippon Credit Bank has remains Hong Kong's most popular official, scored lower I the way Japan's Finanthan the mainland's two ton leaders - a result few would cial Supervisory Agency have predicted before the handover, when the biggest ing a banking inspection fear was interference from that it has threatened legal

Newman Lam, who worked on the project, points to issues ranging from the audit to the govern

Beijing.

in August and September the government intervened in the stock market and began enforcing a stock market rule only cursorily observed. catching many investors short.

ment's handling of the financial crisis.

These are not the things that instil a lot of confidence in the government," he says.

If so, this might surprise largely staffed by former been so incensed with many western investors. For when the PSA was founded six months ago, it appeared

The bank has yet to act on its threat, which is similar to one made by Long Term

Credit Bank of Japan earlier

this year but dropped when the bank was nationalised. NCB's threat is striking. Japanese regulators have traditionally enjoyed cosy relations with the banks they monitored. Consequently, the battle has now left some observers wondering if the watchdog might be finally preparing to use its

to epitomise some of the worst aspects of Japan's policy-making process.

The decision to create the FSA, for example, was taken only after it emerged that the finance ministry had become involved in a scandal with the banks it was supposed to be regulating.

At the time, the government claimed that creating the FSA would shake off the problem by creating a truly "independent" regulator in Japan for the first time. But this claim was under mined when it emerged that the FSA would be located in

a ministry annexe and

ministry bureaucrats. Market confidence was further dented when the FSA launch was delayed by a battle over who would head it.

By last spring, the institution seemed in such chaos that European banks issued a statement warning that FSA problems could underlation moves. But since then, the FSA has started to find its feet. It has hired about 400 staff, moved to a new office, and embarked on a series of bank inspections.

It has drawn up new guidelines for bank reporting and accounting standards, and is turning its attention to other "trouble spots" in Japan's financial the system through mergers

many private banks by insisting that next spring they report had loans at subsidiaries. It has provoked dismay by devising new "bad loan" standards. But its higgest test could come soon.

The agency is now comstarted in August into the top 19 banks. These results will be critical in implementing the government's plan to inject up to Y25,000bn (\$204bn) of public funds into the banks' capital base.

The FSA, like the ministry of finance and Bank of Japan, believes that a large fund injection is needed to force the banks to write off their pile of bad loans. All three institutions want this to be part of broader restructuring that would remove the weak banks from

world, such as the insurance or nationalisations. This loans held by these banks sector. The FSA angered vision has utterly appalled (and Y87,000bn in the entire the weak banks.

They have been shocked by the treatment of the former management of Long Term Credit Bank, Consequently, the banks have indicated they will apply for only Y5,000bn of funds, to expose themselves to more restructuring demands.

The FSA inspection could yet prove a crucial weapon in this fight. For the FSA's new powers give it the right to punish any bank which does not meet capital adequacy standards - as measured by the FSA.

So far, the FSA is still using this power gingerly. It claims, for example, that the top 19 banks have only misclassified their loans by between Y5,000bn and

financial sector).

Though three banks were found to have particular problems, reporting standards of at least 10 were deemed good. But potential flash points remain.

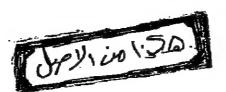
NCB, for example, is pleting an inspection it partly because they do want scrambling to find a merger partner. None has yet appeared, Meanwhile, NCB is one of the few Japanese banks that have not promised to apply for public funds, even though problem loans account for 40 per cent of its lending.

"We are entering a period of sink or swim for Japane it difficult to swim," argues James Fiorillo, analyst at ING Barings. Or, as an analyst at a large US bank adds: "The market consensus is Y10,000bn (\$41bn-\$82bn) out that the government will

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EXTRADITION DEBATE GENERAL'S COMPATRIOTS WANT HIM TRIED, ACCORDING TO FIRST POLL SINCE HIS ARREST

Chileans believe Pinochet guilty

By Imogen Mark in Santiago

An overwhelming majority of Chileans believe General of Chileans believe General chet's role in the human majority feeling against is 2 and 2 per cent angry. ingo by 20 or 30 of the general chet's role in the human majority feeling against is 2 and 2 per cent angry. ingo by 20 or 30 of the general chet's role in the human majority feeling against is 2 and 2 per cent angry. ingo by 20 or 30 of the general chet's role in the human majority feeling against is 2 and 3 per cent angry. genocide, torture and hos-during his 17 years in power. tage-taking. In the first national opinion poll taken that for the first time since vening in Chile's internal week which cleared the way in Chile since the former die he took power in 1978 the affairs tator was arrested in London former dictator is powerless Other, smaller in mid-October, 64 per cent said he was guilty, and only 16 per cent innocent,

A solid majority, 57 per democracy was in danger.

The door-to-oper pour we couldn't get people carried out by the Chilean we couldn't get people the subject."

The latest findings throw interesting statis-

Mori director, that it had 44 per cent said it was good, cent cent said "Not at all". A embassy residences, and in ever framed such direct but 45 per cent said it made recent days some brief sit ins questions about Gen Pino
Ms Lagos thinks the them happy, 5 per cent were on the highways out of Sant
Charles and Sant
Ms Lagos thinks the them happy, 5 per cent were on the highways out of Sant-

and away from Chile. He is in detention in Britain, fac-

human rights. Last week we The door-to-door poll was ran some focus groups and

up some interesting statis-tics. Asked whether it was

turing his 17 years in power. offence that surely powers, of mass reaction to the UK.
The reason of course, is Britain and Spain are inter. House of Lords ruling last Other, smaller opinion

polls over the past month have found that more than ing extradition to Spein to 50 per cent of Chilsens think organised demonstrations, A solid majority, 57 per stand trial for acts of torture and hostage-taking.

Section in favour of a trial if the general was returned to Chile, and 66 per cent did not believe Chilean "no one wanted to talk about government and the right threats and remours of democracy was in wing opposition.

that "this is an issue of the

for the general's extradition pending a final decision by the British Home Office. There have been only two arrested. There have been still well ahead, with 32 per

establishment, it's not one that moves the mass of nothing more than ritual people". Asked, "How does flag-burnings, small demonstrations and vigils outside This was the first time, "a good or a bad thing that Phnochet's detention affect strations and vigils outside according to Marta Lagos. Pinochet has been detained", you and your family? It per the British and Spanish

were virtually unchanged by

The leftwing presidential hopeful, Ricardo Lagos, is reprisals, and a spate of lowed by the rightwing Joa-One other conclusion, bomb scares and hate mail quin Lavin with 15 per cent. according to Ms Lugos, is to British and Spanish diplo- Of the two centre, and less charismatic, candidates, Andrés Zaldivar for the Christian Democrats takes 10 per cent of votes, and Sebastian Piñera, a business-

dards and workers' rights.

we haven't gone far enough

in confronting these issues." Whatever, the long term

consequences, Gen Pino-chet's immediate fate is in

the hands of Jack Straw, the

UK home secretary (Interior

minister). His decision is one

officials in Washington say

they they are pleased they

Mr Hakim says the ball is

now in the Chilean court.

ment no longer able to argue

sovereign immunity, it will

have to demonstrate to Mr

Straw that if the general

returns home, things will

Many doubt that the gen-

eral can be effectively tried

effects on Chilean society if

Mr Hakim says it may be

time to extend the work of

which detailed human rights

abuses and their victims in a

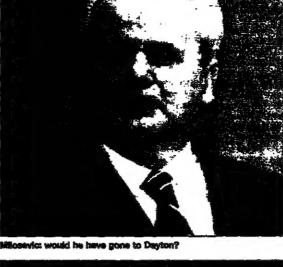
1991 report. It never named

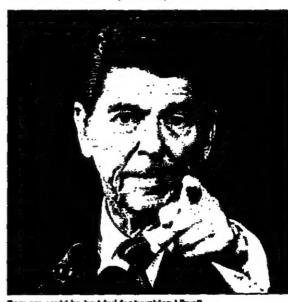
this happens.

the perpetrators.

strengthened the case for an in Chile, and some fear the







Nowhere for a dictator to hide in the global village

Globalisation extends to human rights issues too - and other former leaders should take note. Stephen Fidler sees the US relieved it will not decide Plnochet's future

A s General Augusto Pino- sreign immunity for human found linking Gen Pinochet osevic and the Bosnian Serb the transition period where A chet waits in the Surrey countryside for a decision by a British politician on whether he can be extradited to Spain to face trial, Washington has come down firmly on neither side of the

controversy.

The US reaction so far has constituted "fence straddling, a US official admitted this week, reflecting what he said was an internal debate within the administration Hakim, president of the about how Washington InterAmerican Dialogue, a

should react to the case. Washington has condemned the human rights the human rights considerabuses of the Pinochet ers - ations, particularly when but said that the views of the Chilean government, from human rights groups which wants the general around the world." returned home, should be

This week, the State heightened by the fact that Department announced it one act of violence perpeabuses by his government. But - reflecting the debate 1976 car bombing and mur-inside the administration - der of Orlando Leteller, an it has refrained from giving exiled former Socialist cabian opinion on the UK House net minister, and his US

The case has created an obvious dilemma for Washington. "On the one side, the US has very close relations with Chile - and owes it something because it could not bring it into the North American Free Trade Agree. ment as promised - and supported the whole approach taken by Chile to its democratic transition," said Peter Washington think tank.

"On the other, there are there is so much pressure The delicacy of the human

rights issues are further ington's Embassy row: the assistant, Ronnie Moffitt.

directly with the murders, but the intelligence chief, Mamuel Contreras, has been sentenced in Chile for his

At the heart of Washington's dilemma is a question being asked by governments in capitals around the world following last week's ruling: What does this decision At its most extreme, one consequence is that current and former US officials could

find themselves pursued through foreign courts for their actions while in office: Ronald Reagan's bombing of Libys, or Bill Clinton's of Sudan and Afghanistan, for The ruling also has potential implications for all coun-

democracy has taken place, would declassify US docu-trated by the Pinochet such as South Africa ments that shed light on regime took place in Wash-most of Latin America. such as South Africa and It could also potentially inhibit future transitions, for example in Cubs, and raises questions about whether the 1996 Dayton peace accord on Beenia - which brought Ser- nomic but also covers issues

the US - could have taken place if they feared they could end up in US courts. Moreover, it raises the poscases against foreigners will be pursued in an ad hoc fashion around the world, most often in countries

leader, Radovan Karadzic, to

any resulting controversy. ccording to Bernard With the Chilean govern-Aronson, an assistant US secretary of state for Inter-American affairs from 1968 to 1993: "I think the whole issue points to a large gap in international law that not stay the same.
has to be filled." That suggests the ruling has

international court on

tries where a transition to human rights, a creation Mr Aronson says the Pino- the country's Truth and Recchet case should not be onciliation Commission, viewed as an isolated incident. "It's part of a much broader trend of globalisation that's not only eco-

Until recently the NYSE and trading building. Throughout the negotiations, the NYSE has said it considers a move to nearby New Jersey a possibility,

The NYSE decision will

exchange market, the National Association of Securities Dealers, is consid ering a new New York City headquarters, and is expec-The Nasd, which regulates

the Nasdaq market and recently merged with the American Stock Exchange and the Philadelphia Stock Exchange, is currently based

Changes in SEC rules approved

in New York

Exchange Commission yesterday approved its most regulatory framework in decades, designed to keep nace with rapid changes in trading technology.

At the centre of yestertive" trading systems. They will be required to register either as exchanges or as broker-dealers with the SEC. Such systems, which account for as much as 20 per cent of transactions in Nasdag-traded stocks and 1 per cent of all trades in the US markets, have been required to register as broker-dealers, having their trading operations regulated by one of the traditional PS

Under the new rules. adopted in a unanimous 540 vote the SEC eyes the trut ing systems the choice of being treated as a market, or

as a market participant. Given the chance, two or three alternative trading exchanges, predicted Richard Lindsey, director of the SEC's division of nurket res-

Name-brand eachet assoctated with stock exchanges might prompt some to make the switch, said Mr Lindsey. while others might beprompted by financial rea-

Another advantage was that registering as an exchange would allow an organisation to be self-regulating, which was not available to broker-dealers.

There are about 30 electronic systems which compete directly with traditional exchanges such as the New York Stock Exchange and the Nasdaq stock market. They include Instanct, the electronic trading system of the market.

"We're trying to keep abreast of emerging technology and provide flexibility to new technologies and existing markets and exchanges." said Chris Uliman, SEC

speed up the introduction of new products by the tradi-

The changes will allow the exchanges to introduce pilot programmes for a period of up to two years without the need to gain approval from the SEC.

"Technology is fundamentally changing our marketplace," Arthur Levitt, chairman of the SEC, said. It "has caused us, as regulators, to

NYSE board votes today on quitting Wall Street

the New York Stock exchange to add to its Exchange on Wall Street is today as 26 NYSE board members vote on the latest proposals made by New

has outgrown its trading cials were tight-lipped yesspace in its historic home in terday about the likely

more pressure for the already cramped trading

The attempt to keep the NYSE in Manhattan is considered vital for the tax reve

The NYSE has long said-it Both city and NYSE offi-

OCEAN

building it has traded in

The threat to leave Man-

hattan for New Jersey set off a round of intense negotia-

Trading on Wall Street Battery Park City, off Wall dates back to the 1790s, and Street but still in lower Man-

appeared likely to move from its historic Wall Street

be unwilling to sell out, forc-\$160m. The other New York ing government officials to try a more aggressive consolidation in

gaining tool against the city come at a time of growing

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EU plan to ease friction with US is voted down

The threat of friction between the US and the European Union over drugs and cosmetics trade was resurrected yesterday after 10 EU nations voted against European Commission proposals for fighting BSE mad cow disease.

The vote means that an earlier proposal - forcing countries to remove specified risk material of cattle - remains on the table along with a clause that could halt imports of cosmetics and drugs containing cattle parts from January 1. Franz Fischler, EU farm commissioner, must now find a solution to a problem which has dogged the Commission for 18 months. The Commission never intended to disrupt cosmetics and drugs trade in its original proposal but has been unable to persuade member states to adopt different proposals to fight BSE. Member states oppose the latest BSE strategy for a variety of reasons, none of them related to the drugs and pharmaceuticals trade. There is strong resentment about a plan that would force member countries to adopt different strategies against BSE depending on the incidence of the disease in their countries. Michael Smith, Brussels

WEAPONS DEAL

Greece asks for US arms

Greece has asked to buy four second-hand US Kidd Class guided-missile destroyers and weapons systems in a \$742m deal which is part of a medium-term procurement programme to modernise its armed forces.

The sale requires approval from the US Congress but a Greek official said vesterday delays were not expected because "it would not affect the existing balance of power in the Aegean". Greece has a stronger naval presence, but Turkey, its nominal ally in Nato but rival for control of the Aegean, has air superiority.

The destroyers would be equipped with Standard antiaircraft missiles, Harpoon anti-ship cruise missile and tor-

Greece has already placed an order with HDW of Germany for new submarines. It also plans to buy fast attack boats which would be based in the eastern Aegean Islands close to the Turkish coast. Kerin Hope, Athens

DRUG PATENTS

Canada takes EU to WTO

Canada yesterday filed a complaint with the World Trade Organisation claiming that European Union patent rules for pharmaceuticals and agrochemicals breach the WTO's agreement on intellectual property protection.

The Canadian complaint comes a week after the EU demanded a WTO dispute panel to investigate Canada's alleged failure to provide adequate patent protection for pharmaceuticals. Though the panel request was blocked by Canada, under WTO rules a panel must be established the second time of asking.

The EU and Canada have been at loggerheads over Canadian laws allowing generic drug makers to copy patented medicines before the patent expires so as to have the copies on the market immediately afterwards. Brussels claims this costs its drugs industry hundreds of millions of dollars a year. Frances Williams, Geneva

FOOD SAFETY FARM MINISTERS EXPECTED TO ENDORSE COMMISSION PLAN TO BAN ADDITIVES

EU to ban four animal feed antibiotics

controversial ban on four antibiotics used in animal feed seems certain to go ahead after winning the endorsement of 10 member

of the qualified majority needed by the European Commission, the EU's executive, to implement the ban. However, the issue will

their monthly meeting in mid-December and it would take opposition from eight of them to defeat the Commission's proposals, thought to be highly unlikely.

The vote among the 15 could cost the four compacountries of the EU fell short nies which make the antibiotics at least Ecu300m (\$350m) a year in lost sales. The drugs are Spiramycin (manufactured by Rhone-

Virginiamycin

(Elanco) and Bacitran zinc. The companies argue that the ban is unjustified. Fefana, an industry organisation representing feed manufacturers, says scien-

The ban, to be implemented from January 1, tific studies over 30 years showed there is no significant risk to human health posed by antibiotics used in animal feeds.

"The use of antibiotics in animals is safe and has contributed significantly to

now go to farm ministers at (Pfizer), Tysolin phosphate fare and the quality of meat for consumers," it said.

However, Franz Fischler, EU farm commissioner, argues that the use of antibiotics in animal feed could build up bacterial resistance in humans to drugs.

He says the four antibiotics should be banned hecause either they or closely-related antibiotics are used in human drugs. Although other commissioners have yet to endorse his proposed ban, this is consid-

ered a formality. In yesterday's vote at an EU scientific committee, representatives from only three member states - Spain, Italy and Portugal - were against

The representatives from France and Italy abstained. EU officials believe the vote now necessary among farm stronger result in favour of the ban,

The four antibiotics facing ban are among eight

licensed for use in animal feed, mainly for pigs and poultry, in the EU. Sweden and Finland have exemptions to some of the bans.

Separately, the Commission yesterday proposed a ban on two feed additives made by Pfizer and Bayer saying they too could endanger human health.

The EU's cautious approach to food safety is causing trade friction with

Consensus

sought on

new WTO

By Frances Williams in Geneva

World Trade Organisation

members yesterday agreed

to aim for a consensus deci-

sion on a new director gen-

eral by mid-December, if pos-

sible by the end of next

The two WTO ambassa-

dors charged with consulting

the WTO's 132 members on

who should succeed Renato

Ruggiero of Italy next May

job gave no hint of the lead-

les inspections

lgenigner rist

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leader

Arabian fights as state-of-art ports vie for scarce business

Poulenc).

The Asian financial crisis has thrown out calculations for new ports being built in Yemen and Oman, reports Maurice Gent

ver the past few years many millions of US dollars have been committed to building two stateof-the-art ports on the southern coast of the Arapian peninsula.

When the projects were drawn up, trade between the east coast of the US. Europe and Asia was growing fast. For this year a growth figure of 9 per cent was predicted. Both the Omani project at Port Raysut which received its first ships this week, and the Yemeni container port at Aden, expected to open next March, were confident of

commercial success. The previous conventional wisdom in the shipping At Oman's Port Raysut Sea industry was that there could well be room for both. But that is now being reas-

At a recent shipping conference in Dubai the man- European carrier, the Danish agement companies behind these two projects were questioned closely about who was going to use all this new capacity.

ning the Port Raysut project, was able to come up with convincing answers in terms of traffic flow, while the Port Singapore Authority, which is to run the Aden operation was unable to be so specific.

Aden at first sight would

appear to have the edge - a superb geographical position for a hub container port, where large vessels can offload their cargoes for the ports of East Africa and the Inner Gulf. In the Port of Singapore Authority it has a first class management highly thought of in the

The opposite is the case phrase - "political stability". mately the same amount again on superstructure. Although their spokesmen

keep well clear of commenting on regional politics, nelther company would have committed itself to Yemen. which has become notorious for its unstable political

Since the British withdrew from Aden in 1967, leaving two rival groups fighting for power, there has been tribal conflict and civil war. There have also been not infrequent kidnappings of business executives and aid workers in the interior.

Oman, however, since the accession of Sultan Gaboos tions both with the west and

private sector affiliate, the International Finance Corpo-

SAUDI ARABIA

In the Oman project both Sea Land and Maersk have a 15 per cent interest in the ement company, Salalah Port Services. Between them they operate about one-third of the total conpotential customers is the tability of Oman.

MAND

Salalah Port Services' chief executive, Jack Helton. has been seconded from Sea Land to run the project along with several other senior executives from the Middle East and Europe.

Mr Helton and his colleagues have become closely involved with plans for developing a larger conven-tional port, which will also take crudes ships. As part of the deal he is also content to accept conditions laid by government - that more than 50 per cent of the work force should be Omani rising to 60 per cent as the project

gets under way. Already Omanis have been sent to Sea Land's Hong Kong operation and have come back ready to operate cranes worth more than \$5m

presentations are given to

ers and laggards among the four rival candidates when they made their first report to the WTO's general council yesterday. Swiss ambassador William Rossier and Celso Lafer of

Brazil said merely that consultations with some 70 members representing 90 countries had shown that the candidates "did not enjoy equal levels of sup-At the same time, countries had indicated that they would not block a consensus on any of the four who are

Hassan Abuyoub of Morocco has the backing of African and Arab states. while Thailand's Supachal Panitchpakdi is supported by the Association of South East Asian Nations, Japan,

Australia and Norway. Latin America, which does not have a candidate of its own, is said to be divided between Roy MacLaren of Canada and New Zealander Mike Moore.

all considered well-qualified.

Meanwhile, the US and European Union, the two trade superpowers, have not yet declared their positions with the 15 EU members apparently split between Mr Supachai and Mr Abuyoub. Trade envoys said the situation could change when the EU and US make their Partnerships between

stands known. Ambassadors Rossier and Lafer are due to report again to the general council next Thursday when it is hoped a decision can be made.

report. RWE, the German Though the aim is to reach contracted to establish and consensus, the normal way in which the WTO conducts bine plants for BASF, Bayer its business, if this fails WTO rules provide for a decision by simple majority more efficient plant will reduce the need for large

Most WTO members, however, would probably opt for a delayed consensus decision early next year rather than force the issue to a vote next week. No vote has ever been taken on appointing a director general for either the WTO or its predecessor, the General Agreement on Tariffs and Trade, since 1948. During the bitter selection fight in 1995, in which Mr European power by 2015 to Ruggiero, the EU candidate, was finally victorious, a poll pared with just 7.5 per cent of members was published showing him clearly in the

It says that more than 70 lead. However, this was not a formal vote but a way of putting pressure on Washington areas as the North Sea and to abandon its veto of Mr Ruggiero's appointment.

shipping industry. however, and the whole in 1970 has built itself up as a conciliator with good relaequation hangs on one

Oman has built good relations both the west... That is

why the big western investment has gone there

Land of the US, which manages 28 terminals around the world, has committed itself to a very large up-front investment. So has a leading line, Maersk, also in the top and Saudi investors. Comfive. The government has contributed about \$130m for the infrastructure and Salalah Port Services, in which Salalah Port Services, the the two shippers have an

FINANCIAL TIMES

Conferences

27 January 1999 - London

EAST AFRICA

From Co-operation to Community

Developing an Agenda for the 21st Century

Senior ministers from the three East African countries and speakers from

the international business community will examine recent progress in the East African Co-operation process and discuss the implications

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of the treaty on investment and growth in the region.

Led by Mr Quentin Peel, Foreign Editor and

Executive Secretary
Secretariat of the Commission for East Africa Co-operation

Mr Michael Holman, Africa Editor of the

Financial Times, speakers will include:

HE Chief Emeka Anyaoku CON

Ambessador Francis Muthaurs

Director-General DG VIII (Development)
European Commission

Rt Hon Clare Short MP

Mr Philip Lowe

Mr Christopher Poy Chief Executive

Mr TIG Barrasford

Mr Gareth Bullock

Mr Peter Pooley CMG Chairman Britain-Africa Basiness Association

Sub-Soharun Africa, CDC

Mr Tim Davidson

African Lakes Corporation Ple

A creaty establishing an East African Community, providing for a Common Market for Kenya. Tanzania and Uganda, is due to be ratified by the three heads of state by the middle of 1999.

other regional powers. That is why the big west-Oman whereas the Aden

ern investment has gone to project has relied on Yeminvest, a Saudi company, which has looked to Yemeni mercial banks are supplying loans for Aden's \$250m first phase but these are subject

and when Port Raysut opened on Tuesday it received container vessels from the two groups.

Both have committed themselves to a 30-year partnership with the government of Oman and have pledged to use the port as a link in their US east coast, Europe to political risk guarantees and Asia container shipping by the World Bank and its route. High on the list when

tainer fleet in the region,

EU expected to form single power market

to individual factories and

industrial companies and

power producers to develop

cogeneration plants already

multi-utility, for example, is

Construction of smaller,

unsightly national transmis

sion networks, cutting the

potential for price manipula-

tion due to transmission con-

can achieve 65-75 per cent

efficiency compared with

tional coal-fired power sta-

tion, says Andersen. It

expects 30-40 per cent of

be generated by gas, com-

per cent of the world's natu-

Cogeneration gas plants

and Opel

in 1992

By Andrew Taylor, Utilities Correspondent

The European Union within 20 years will have a single power market increasingly dominated by gas-fired electricity generation, according to a study due to be published later this week.

A switch to smaller, cleaner, natural gas-fired power stations providing local heat and electricity to towns and cities will reduce the need for large remote power stations served by traditional coal mining industries, says the research by

Andersen Consulting. It expects liberalisation of EU electricity markets to encourage cross-border power trading as customers and suppliers increasingly rely on futures contracts and other derivatives to protect against volatile electricity

price movements. Under a Brussels directive most member countries must open 25 per cent of their electricity market to and its manufacturers. competition from next February, rising to 33 per cent tion will create customer

already being developed in cated nationalists and pro-Britain, Scandinavia, Spain, tectionists will have to the Netherlands and Switzer- yield." land, will reduce the relevance of national borders cleaner power will encour-

and allow electricity to be age construction of small traded like any other com-modity, says Gill Rider, head tions which will be able to of Andersen's north Euro- provide heat and electricity pean utilities practics.

Scottish Hydro-Electric, local communities, the UK generator, recently signed Europe's first electricity weather derivative with Enron of the US to protect itself against surges in are increasing, says the power prices and demand during prolonged cold weather.

Attempts by politicians to run combined cycle gas turprotect indigenous energy industries, such as coal mining, provide the biggest obstacle to competition. Protectionism, however, is likely to founder in the face of customer demands for lower prices, forecasts the

Mrs Rider says: "As con- straints. sumers start to see lower energy prices in other countries, governments across Europe will be forced to 30-40 per cent for a tradiexamine the economic consequences of protectionism on both the country's utilities

"We believe that liberalisademands for cheaper power Power trading markets, to which even the most dedi-

Pressure for cheaper,

ral gas is "deliverable into Europe from such gas-rich

INTERSTATE OIL AND GAS TRANSPORT TO EUROPE

INVITATION

INOGATE

In the frame of the INOGATE Programme, the European Commission is issuing an invitation to representatives of the Oil & Gas industries to the seminar.

"INOGATE: Investment Opportunities in the Oil & Gas Sectors of the Newly Independent States (NIS) and the Central European Countries"

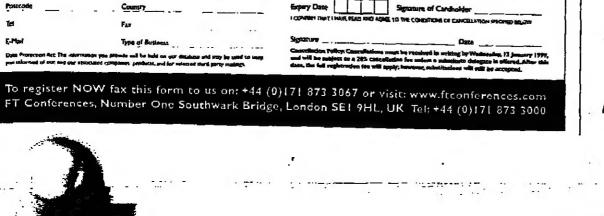
Date: December 8th and 9th, 1998

Venue: European Commission, Charlemagne Building (Room S3), rue de la Loi 170, 1040 Brussels, Belgium

This seminar will be a unique opportunity to meet with the representatives of the Oil and Gas Sectors of the INOGATE countries (Armenia, Azerbaijan, Belanis, Bulgaria, Georgia, Kazakhstan, Kyrgyztan, Moldova, Romania, Russia, Turkmenistan, Ukraine, Uzbekistan).

Participation to the conference and documentation are free of charge. Contact and registration: INOGATE Support Group

phone: + 32 2 779 13 02 - fax: + 32 2 779 08 60 - e-mail: support@inogate.com Visit our website: http://europeanunion.tacis.inogate.com INOGATE is a pluri-annual technical assistance programme of the European Commission. Its objective is the providing of technical assistance in rehabilitating, retionalising and expanding Oil & Gas export and transit infrastructure from the NIS to Europe.



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Egypt's human rights group leader arrested

Egyptian police yesterday arrested the secretary general of the country's main human rights organisation, after accusations that the British embassy paid it to write a report which exposed police brutality against civil-

Hafez Abu Seada, secretary general of the Egyptian Organisation for Human Rights (EOHR), was arrested and committed to 15 days' detention after being accused of treason and false reporting by a Cairo newspaper, el-Osboa. He faces a prison sentence with hard labour if he is found guilty.

The newspaper claimed "an enemy foreign embassy" on October 8 1998 paid the EOHR \$25,703 to write a report on a month-long murder investigation carried out by police in the Egyptian the Dutch government.

During the investigation, up to 1,200 people, mainly minority Coptic Christians, between the embassy cheque were interrogated as police attempted to find the murderer of two Moslems. Many of those interrogated were tortured and their time the British ambassy experiences were brought to had issued (such) a cheque".

IRAQ AND THE UN

ply with UN resolutions.

cal weapons programme.

checked by inspectors.

ISRAELI POLITICS

government.

be handed over to Unscom. Roula Khalaf, London

NEWS DIGEST

Weapons inspectors

impose tougher test

led to a row over access to documents.

A team of United Nations biological weapons experts yesterday began a new test of Iraq's commitment to com-

The team from Unscom, the UN special commission, arrived in Baghdad on Tuesday, and is expected to conduct challenge inspections. These are more sensitive than the monitoring work Unscom officials have been engaged In since their return to Iraq two weeks ago. Beghdaid averted a US-led military strike last month by agreeing to resume co-operation with inspectors but the US has demanded that Unscom quickly pursue a tough test of Iraq's pledge of compliance. The test has already

UN arms inspectors have said they still lack a clear understanding of Iraq's past efforts to develop biological. weapons. According to a former inspector, Unacom's team in the coming days will seek to interview scientists and officials suspected of having been involved in the biologi-

An Unscom official said yesterday that more visiting teams would be sent to iraq. The test of tradi compliance is expected to take another two weeks. As challenge inspections resume in Bagndad, Richard

of the 12 documents requested lest month from the lead

Iraq also said a key document dealing with chemical weapons could only be seen by inspectors in the presence of Prakesh Shah, the UN secretary general's special envoy

to Baghdad. Mr Butler, however, wrote back to the Iraqis

e State S.

last week, maintaining that this document should simply

Levy demands finance post

David Levy, head of the Gesher party and a supporter of

high public spending, said yesterday he would rejoin Benjamin Netanyahu's coalition but only if he was made finance minister, one of the most important posts in the

Mr Levy made the demand after talks with Mr Netan-

national unity government and put off early elections.

But economists warned it would be "bad news" if Mr
Levy was appointed finance minister. "International inves-

tors have been impressed with Yaakov Neeman as finance minister," said Stephen Levey, head of the Israeli office of

Warburg, Dillon Read. "It would be very disappointing if he

Mr Levy, a former foreign minister who quit the govern

ment last January after criticising Mr Netanyahu's style of leadership and his tight fiscal policies, was last week

He has since raised the stakes, although it is uncertain whether Mr Netanyahu would completely compromise his

economic policies aimed at lowering inflation and reducing the budget deficit by ceding to Mr Levy's demand.

promised the post of infrastructure minister.

yahu who needs the support of Gesher's four-member party to stabilise the coalition, reduce the need for a

Iraq told him it was in a position to share with Uniscom: only two of the sets of records because the rest either did not exist, had been destroyed, or had already been

tigated their claims.

The government has been embarrassed by the exposure of the brutality, which the EOHR report and other wifnesses concluded was not anti-Christian, but simply

The arrest of Mr Abu Seada is regarded by human rights organisations as a backlash by the security forces in response to the revelations.

The accusations made by Mustapha Bakri, el-Osboa's aditor in-chief, are based on a bankers draft sent by the British embassy in Cairo to the EOHR specifically to finance a legal advice centre for Egyptian women, which the embassy had funded since 1996 when it took over financing of the centre from

Speaking from abroad through a journalist at the newspaper yesterday, Mr Bakri said that "the linkage and the al-Kosheh report was based on the length of time between the two, and the fact that it was the first

conclusive proof to substan tiate its accusations. How-

ever, Egypt's state security prosecutor ordered Mr Abu Seada's arrest on the basis of its claims, A British embassy official yesterday insisted exposed the poor relations the sum granted to the between the police and civil- EOHR was for the legal aid in general. a special account for this purpose and for which an annual financial statement

The government is regarded by human rights activists as having emba on a campaign to vilify the EOHR for highlighting the police brutality, without taking steps to carb police The fact of the accusations

having appeared in el-Osboa has, in itself, raised suspicion among human rights Associates of Mr Bakri are known secretly to have recorded an EOHR board

meeting which followed publication of the newspaper's claims, at which it was agreed the money would be returned to the embassy and that all future foreign donstions would be rejected as a

Growth plea to aid poor countries

Developing countries face weak growth this year with slow recovery to follow

world bank global action urged to stem economic troubles and revive developing world prospects

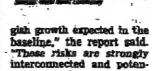
precarious short-term outlook which demands that policymakers in industrial countries do more to avert a global slump, the World Bank warned yesterday.

in its annual report on Global Economic Prospects and the Developing Countries, the Washington-based institution said that incomes world would on average increase by just 0.4 per cent this year, down from 3.2 per cent in 1997.

The financial crises that kets over the last 18 months nean that incomes ner head will fall this year in Brazil. other developing or formerly communist countries.

Per capita growth is expected to remain slow next year, but could return to the 3.5 per cent pace of recent years thereafter. But the Bank warned that this reassuring scenario was not a foregone conclusion. "There are substantial

risks that the world econthe first time since the early omy will fall into recession in 1999 rather than merely enduring the period of slug-



tially mutually reinforcing." To assess the downside the recession in Japan worsened, that private sector capital flows to Latin America ket falls of 20-30 per cent depress growth in the US nario the world economy suffers a severe recession next year and per capita countries as a group fall for

"Growth in developing to work and the short-term

countries could still reach the record-setting rates that we saw in 1991-97," said Joe economist. "But this will only happen if policies to prevent a deeper global

countries strengthen their The Bank welcomed recent sis, including industrial country interest rate cuts, stimulus measures and structural reform in Japan. fresh financing for the International Monetary Fund and the Brazilian rescue pack-

slump are implemented

quickly and developing

The report also described crises. Mr Stiglitz has incurred the wrath of some tional financial institutions by publicly casting doubt on the IMF's prescriptions for

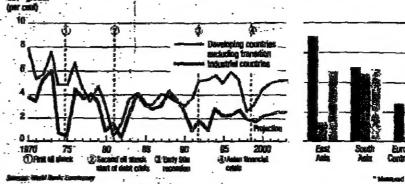
crisis-hit nations. For example, the report casts doubt on the wisdom of imposing substantial interest rate increases to restore confidence in a crisis country's currency. "The still early state of the research into the behaviour of interage. "But policies take time est rates and exchange rates during crises may not allow

outlook remains precarious," firm conclusions," the report more evidence about the activity, confirming the

> and numced way."
> The report said that countries should often consider bility if they were facing dramatic inflows of capital. But likely under floating as fixed exchange rates. Floating rates also bring other prob

importance of undertaking

monetary policy in a flexible





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BANQUE NATIONALE DE PARIS



Hoss confirmed as PM Salim al-Hoss was yesterday named prime minister of Lebanon and said that reducing the country's estimated. \$2bn budget deficit would be his first priority.

Judy Dempsey, Jerusalem

LEBANON GOVERNMENT

Speaking after his visit to the presidential palace at Baabda. Mr Hoss said: "We believe the deficit constitutes the source of many problems from which the economic sector suffers. Mr Hoss has served as prime minister three times previously, during some of the darkest years of the

He replaces Rafiq al-Harif, the entrepreneur and con-struction billionaire who bowed out unexpectedly on Monday after declining to accept another mandate from Presi-

A quietty spoken politician and academic sconomist, his dent Emile Lahoud. personality stands in vivid contrast to that of his predeces-

Mr Hoss piedged to continue reconstruction projects begun by Mr Hariri but promised to "apply the principle of austerity in the extreme" in his 1999 budget. Analysis said financial markets would welcome the emphasis on tacking the deficit, one of them describing the remark as "exactly

what I hoped to hear.

Mr Hoss also emphasised the need to assist these displaced by the civil war to return to their homes, the ind visibility of the Syrian-Lebanese peace tracts and the importance of Israel's unconditional withdrawal from southern Lebanon, James Schoffeld, Bairut

THE EURO ALSTOM CHIEF SAYS POUND MAY BE MARGINALISED

'Banana currency' risk to sterling

By Peter Marsh in London

Sterling risks being marginalised as a "banana currency" if Britain stays out of the euro zone too long, according to Jim Cronin, deputy chief executive of Alstom, the UK-French electrical engineering company.

The comments are among a British business executive about the dangers of the UK failing to join the 11 countries in the single currency zone, which begins in just over four weeks.

Mr Cronin was a long-serving executive at GEC, the UK electrical goods company that owns 24 per cent of Alstom, before his current appointment. He said that 60 to 80 per cent of Alstom's sales would be in auros within a few years. Most of the rest would be in dollars. Alstom - based in Paris and listed on the Paris, London and New York stock exchanges - had sales last many of its UK suppliers

stance on the euro remains favourable in principle, but it has ruled out entry before the next national election. which many expect in 2002-2003.

Mr Cronin believes British companies that do not use euros in their transactions may suffer commercial disadvantages. They would the toughest warnings from need extra hedging operations and they may not be geared up fully to compete with other companies not only in Europe but also in Asia, where a range of

> Mr Cronin said, that in tendering for projects in Asia, Alstom would base prices increasingly in euros rather than sterling.

currencies is used in com-

A number of other manufacturers - from countries such as Germany and Switzerland - have also said they intend to issue price lists to Asian customers in euros. Alstom is talking to year of Ecul4.1bn (\$16.3bn), about whether they would 15 per cent of which were in accept euros in payment.

But Mr Cronin believes that only a few companies will want to switch to euros when most of their costs are in sterling. "A lot of UK up to using the euro when it starts," Mr Cronin said.

Recent surveys indicate that many big international favour of the UK joining the single currency as soon as inflation rates and economic growth in Britain have converged with those of the But many smaller busi-

nesses remain antagonistic

reduced independence and the banding away of the UK's abilities to set short-term interest rates to • The government's campaign to publicise the euro has cost nearly £5m so far. Patricia Hewitt, a senior Treasury minister, told the House of Commons. She said the campaign had been "highly effective".

Business and the euro, Page 25 | Raj Mair: "No job is safe in today's climate"



CLOSURE THREAT WORKERS START OWN BUSINESSES

Sale hopes fail to halt Siemens countdown

By Chris Tighe In Newcastie opon Tyne

Decommissioning of the Siemens factory in north-east England is under way after a short delay pending talks between the com-

potential Chinese buyer. The factory, the £650m (\$1.07m) first stage of a £1.1bn project, bad been in commercial production less than a year when the German company announced in July that it was to close with the loss of 1,100 jobs because of global semiconductor market conditions.

Microchip production ceased last week, and Siemens says it remains "cautiously optimistic" that some deal can be struck. "Talks have been going on with a couple of parties and one party in particular - one party is quite advanced," the

Of the 500-plus workers who have left the plant, about 60 have transferred overseas with Siemens, Others have found work in the north-east or elsewhere in the UK. Some have set up on until mid 1999 to com-

plete decommissioning.
One of those who left is Raj Mair, now owner and manager of Innovation Ltd. his own information technology services company.

"I wanted to set up a company; this has given me the opportunity to do that," says 33-year-old Mr Mair, a former IT project manager. "We realised that whether you work for a large company or a small company no job is safe in today's climate. That helped us take the plunge."

You haven't just got to feel sorry for the Siemens people," says Eddie Darke, North Tyneside Council's deputy leader. He cites the region's recent run of heavy job losses and big closures. These include not only Fujitsu's semiconductor plant, finally closing tomorrow, but also cranemaker Grove, razor-blade maker Wilkinson Sword and a

dozen textile factories. The loss of Siemens and Fujitsu – seen as prestigious inward investors providing

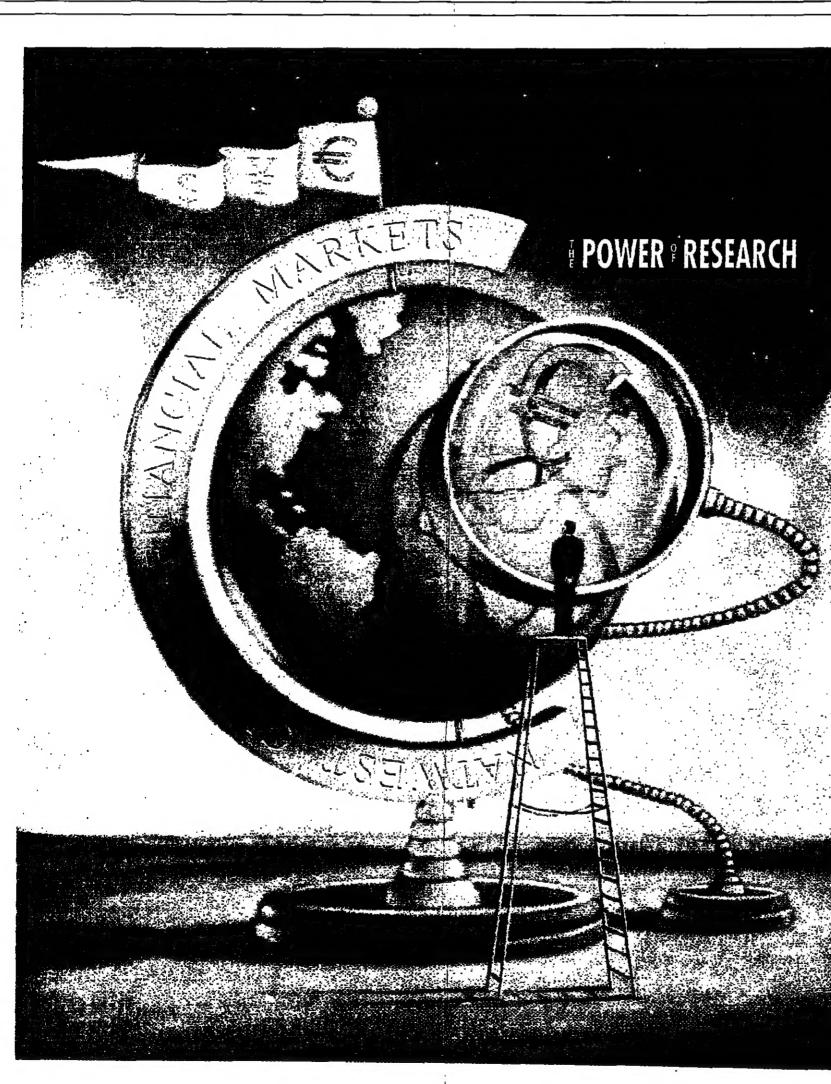
the jobs of the future - was mens wants 300 of the a big blow to morale. But despite all bad news, north-east regeneration leaders are striving to project a positive message.

"We are in a lot better

state than five years ago," says Chris Roberts, the North Tyneside council executive director responsible for regeneration. Siemens, he says, has belped build new educational, training and investment momentum and provided a skills spin-off. Local shipbuilder Swan Hunter underwent two years of receivership and rumour before an eleventh-hour rescue by Dutch investors. Whatever happens to the

Siemens factory, withdrawal by inward investors and the hopes pinned on distant saviours highlight the northeast's under-achievement in indigenous company formation and growth.

Inward investment is vital. says Bill Midgley, president of the North-East Chamber of Commerce, but the region has relied too much on it. "We need to see more of our people have an entrepre-



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Teaser Blair must decide whether to reveal more flag

By Robert Paston, Political Editor

Tony Blair, in his Hugo Boss suit, is Mr Europe, seducing big business with his tantalising hints of a lust to join the euro. But ~ to use the image of John Major made famous by Blair's press secretary, Alastair Campbell - there is just a hint of Union flag underpants above the waistline. If a European politician suggests monetary union may require members to cede some control over taxation, the prime minister comes across all starchily Thatcherite with a

"од.од.оп". It is just as John Major predicted before the election: Blair is a Europe-loving red in Baroness Thatcher's frilly blouse. And yet - probably to Major's surprise - Blair faces no serious opposition. The soft left traditionalist wing of Labour, led by Robin Cook and John Prescott, admit their awe at his ability to push through what they see as progressive socialist policies with only a glimmer of opposition from a

Conservative-biased media. Or at least that was true until Oskar Lafontaine bundled along. The new German finance minister is a high-living, tub-thumping socialist of the old school. The ideological and personal chasm between him and Blair was obvious when they met for the first time two years ago in Bonn. Blair came to discuss the new European politics, but could hardly get a word in above the din of a jazz band on a booze-cruise down the Rhine organised by the SPD leader.

Presumably it was the din which prevented Blair getting advance notice of Lafontaine's high-tax, high-spend views. These make him a wonderful bogeyman for the British tabloid press, which uses him as a device for attacking Blair's "collaborator" approach to the EU.

Lafontaine's campaign to secure uniform corporate and savings taxes in Europe and desire to prevent any country having a veto over European tax proposals represent the worst kind of

he has to choose between his pro-European instincts and kowtowing to British tabloids baying for chauvinist soundbites. To his credit, be has so far opted against chean anti-German or

anti-European jibes. But Lafontaine has undermined the notion that the dominance of centre-left governments in Europe, following the SPD German victory earlier in the autumn, would help the UK to set the EU agenda. It was a view held by Cook, but Downing Street has always been more cautious about it.

The Blairite EU vision was in fact remarkably similar to that of the former Chancellor Helmut Kohl and the German Christian Democrats - certainly Kohi regarded Blair as a kind of freakishly lithe son and heir.

And it is no coincidence that with Kohl's departure. Blair has had to make common cause with Jose Maria Aznar, the centre-right Spanish premier, to promote his programme of increasing labour market flexibility the socialist brothers in France and Germany are

less than enamoured of it. But the proponents of an Anglo-German entente say all is not lost. Peter Mandelson and Bodo Hombach are swanking around like lifelong buddles after their inaugural meeting on forming a Third Way. And the German chancellor, Gerhardt Schröder, is said by Britis officials to be modelling himself explicitly on Blair. Blair is banking on an inevitable power struggle between Schröder and Lafontaine, with the latter

being trounced. This may turn out to be wishful thinking, Schröder in an FT interview yesterday, made clear that, for now at least, if he has to choose sides between the British prime minister and the SPD's most powerful member, he will stick with big Oskar. Which means that Blair still has to choose between taking off his Union flag underpants or wearing them outside his trousers.

Opposition chief in upper house sacked

By Robert Peston and George Parker

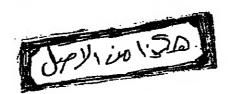
William Hague last night sacked Lord Cranborne as leader of the opposition Conservatives in the House of Lords for alleged treachery in agreeing terms with Tony Blair, prime minister, on the expulsion of hereditary peers from the second chamber.

In the first serious crisis he has faced since becoming Conservative leader 17 months ago, Mr Hague repudiated an agreement negotiated by Lord Cranborne that trol of his majority in the would allow 10 per cent of upper house.

the 750 hereditary peers to keep their voting rights for

But Conservative lords said last night they supported Lord Cranborne and the deal - which would have prevented months of wrangling over the Lords reform bill - by a margin of four to one at a meeting last night.

Lord Onslow, the outspoken Conservative hereditary lord, said: "I thought Lord Cranborne got the total support of the meeting". Mr Hague may now lose con-



RSDAY DECLARMAN

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2. 競技 · 10 ***

We speak numbers fluently, but do you know in how many languages?



French franc (FRF) exia's outstanding toans in the financing of public services facilities stood at FRF 631 billion on 30 June 1998.



Dexia has a 40% stake in Crediop, the private bank for public service facilities in light, its share of funding represented 25% of the oper market for public sector on 30 June 1998.



US dellar (USD) Total outstanding commitments generated by the New York branch in public finance and project finance came to USD 3.914 billion on 30 June 1998.



Experta-Bit, bor (a); tale . Dex.a's Swiss 1/35.74 (1997)



Credit local de France's total outstanding book asses



Australian dollar (AUD) is manages assets of AUD 205 million in Australia



Pound sterling (GBP) Dexa has two outlets in the United Pinguists Bit. London focuses on asset ther day factor Dexia Municipal Bank (GBP 1 076 baloon of the proper credits on 30/06/98) is a significant plant. in the social housing and major project, market



Dutch florin (NLG) NV Bank Nederlandse Gemeenten th Dutch municipal bank, was one of the founding shareholders in Dexia France.



merger of Crédit local de France and Crédit Communal de Belgique. Already European

leader in the financials of public service into bank insurance and asset management.



Dexia is providing transing for Capadian an white-s and major cities as part of its

North American expansion. Outstanding bank (170.)

at CAD 656 million on 30 June 1999



Belgian franc (BEF) Dexia's total outstanding deposits, all customer categories, came to BEF 2,896 billion on 30 June 1998.





Portuguesa escudo (PTE) Dexa supplied the equivalent of PTE 1.004 billion towards the financing of the Tagus bridge.



Swedish krona (SEK) Only eighteen months after startes Dexa's Swedish subsidiary, (U. on Harmon internet isk.). has total outstanding foods of SEK 5,083 beliefs on 30 June 1906



Austrian schilling (ATS) Dexia has a 26% stake in Osterreichische Kommunalkredit. The bank of Austrian local government posted ATS 5.33 billion in new operations on 30 June 1998.



on 30 June 1998. These activities have been resssigned to the group's new specialised subsidiary.

Dexia Asset Management (Dexiam).



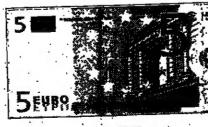
Greek dracma (GRD) As part of a partnership agreement aiched in said [1090] Dexia has been acting as advisor to the threely marbling savings and deposits bank in the areas of instructions lending and resources points



Deutsche Mark (DEM) Since the beginning of 1998, Dexia Hypothekenbank Berlin AG has issued a volume of DEM 5.5 billion on the lumbo Pfandbriefe market. These issues have been given an AAA rating.



with the group Argentaria, Dexia has acquired a 40% stake in Banco de Credito Local, the leading banker of Spanish local authorities.



Euro (EUR) On 15 September 1998, the market capitalisation of the group totalled 9.5 billion euros.





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CORPORATE GOVERNANCE MINISTER THREATENS REGULATIONS

Final warning over boardroom pay

By David Wighton Political correspondent

industry minister, yesterday gave a final warning to insti-

He told a meeting of institutions and fund managers annual shareholder vote and there was a case for making

He also criticised pension funds' record of investment in venture capital and urged institutions to put more into "the development of the businesses of the future".

But Ann Robinson, director-general of the National Association of Pension Funds, told Mr Mandelson that the problem did not lie with institutional investors. The biggest issue for Britain was not the flow of money but the lack of interesting projects to invest in." she said after the meeting.

capital was much higher important element of comthan in continental Europe, she added, questioning fig-Peter Mandelson, chief ures showing it was much lower than in the US.

A colleague of Mr Mandeltutional investors to take son said he did not accept action over executive pay or face corporate governance the reaction on venture capital rather over-defensive," said the colleague. But he added that Mr Mandelson that companies should put was "pleased with the posiremuneration policy to an tive tone" on corporate governance.

> NAPF welcomed Mr Mandelson's call for a separate shareholder vote on remuneration. "It is perfectly norpeople should have an interest in what they are paid," The NAPF backs the idea

that the separate vote should be made obligatory through incorporation in stock exchange listing rules.

Ms Robinson said Mr Mandelson was right to focus on the role played by institutions in company performance. "He sees corporate governance as a very petitiveness and he is abso

But there remains opposition - from the Confederation of British Industry, the employers' lobby, among others - to the introduction of a remuneration vote.

Insurers, also at yesterday's meeting, questioned whether shareholders could be given sufficient information to make an "informed" decision on the remuneration committee report. Richard Regan, ABI head of invest-ment, said: "It is one approach but it is more important to ensure that shareholders vote on the adoption of incentive pack-

Margaret Beckett, Mr Mandelson's predecessor, said in March that the government reserved the right to make the vote compulsory but hoped companies would adopt it voluntarily. Very few have. The DTI said Mr Mandelson would watch what happens over the next few months very carefully.



s cover against the Scottish rain Ashley Coombes

Mackintosh maker resists stormy currency conditions

with naphtha, a by-product

30 coats a week. But the dif-

ference now is that they are

including "rust", pink.

Hermes of France and Ralph

Lauren of the US, which sell

some of its products under

their own names. They retail

if you are wearing one of our

garments, you are recog-nised as a prestige person,"

says Robin Veitch, managing

director, an accountant who

took control of the company

in 1974 in a management

"We sell on the basis that

for up to £1,500 (\$2,475).

be company has linked with fashion houses including Gucci of Italy,

turned out in 24 colours

green, khaki and tartan.

waterproof

A Scottish company turns away orders when other manufacturers are being hammered by the high pound. Peter Marsh reports

ew UK exporters are stick together places of turning away inquiries rubber-coated cloth using Macintosh's original recipe from Japan because they for a rubber solution mixed do not have enough manu-

facturing capacity.

But that is the case for a company which has shot to is then hand stitched before prominence making rain- the seams are taped over with thin strins of labric to ats according to 170-yearensure the garments are old manufacturing princi-

Traditional Weatherwear, in central Scotland, is one of a handful of companies in the world making raincoats using the methods of Charles Macintosh, the Scottish inventor who made the first "mackintoshes" in the 1820s from a process he later

Demand, mainly for exports, has been so strong that the company this year took on 12 apprentices to be schooled in mackintosh manufacturing. This brought the workforce to 74, nearly double the figure four years

Traditional Weatherwear's mackintoshes are made in much the same manner as in the 19th century. Workers

buy-out, le says his big breakthrogh was in 1979 when the ompany won its first orders rom Hermes.

About 6ther cent of last year's 52.60 ales carried its own brand This year Mr Veitch is execting sales of between £3 and £3.5m. with 85 to90 per cent exported. Util the new apprentices a fully trained - late next ye - he is having to turn any customers. Even so, he iaudgeting for sales of £5m nt year. A worker can make up to

- I am havingo tell people to wait until 20," says Mr Vettch, who ow, 90 per cent of the compar, One day recently he ha to advise three sets of pential customers from Japa - which with France, is te company's biggest sitle export market - that . had no

spare capacity. Mr Veitch saythe high pound, which h pushed down export order or many companies, has notamaged Traditional Weaterwear's business. Instead 'worrying about the pind, he takes the view tha against the D-Mark, sterlings about where it was six yes ago and much weaker the when

NEWS DIGEST

Northern Ireland

Leaders close to deal or cross-border institutions

Northern treland political leaders last night appeared lose to a deal on cross border bodies to link the region and the Republic of Ireland after weeks of talks. Dny Blair, th UK prime minister, joined the talks last night ind hopes were raised that a deal on north-south institutions, and the executive that will take over the running oithe region, could be struck before party leaders leave or the US

David Trimble, first minister of the new asembly and leader of the Ulster Unionists, the biggest to-British prty in Northern Ireland, said agreement was "tatalisingly close". He echoed optimism from Seamus Ialion, his

nationalist deputy first minister.

Geny Adams, president of Sinn Fèin, the lah Republican Army's political wing, also hinted at the kelihood o.a. breakthrough before the end of the week. "Iwill be projress, but progress on the terms of the Uniont go-slow policy. But yes, I would not be surprised if thre was agreement," he said.

 A 24-year-old man was yesterday recovering in hospital after being shot in both knees in a paramiary-style punishment attack. Police said the man was not on a housing estate in south Belfast, the Northern sland capital. He was the second victim of a paramilitar style attack in the region this week. A man of 25 was attaked by four masked man outside his home in South Armsh. "The man was given a severe beating with metal oects." said police. John Murray Brown, Belfast

BBC TOP JOB

Sony man may be conteder

Howard Stringer, president of the US operatics of Sony, the Japanese electronics group, has emergeds a possible contender to succeed Sir John Birt as direor-general of the BBC when he steps down in 2000. Mr ringer, considered last year by Channel Four for the 1st of chief executive before joining Sony, is likely to be cisidered by the BBC governors. Mr Stringer, who has duasritish and US citizenship, is a former president of the CE network in the US and is known for having lured Davidetterman, the late-night chat show host, to join CBS fromBC in 1993. Other outside candidates likely to be colidered include Michael Jackson, chief executive of Chinel Four, and Greg Dyke, chief executive of Pearson Telision, a sister company of the Financial Times. There a also likely to be a number of internal BBC candidates, incding Alan Yentob, director of television, and younger maners Including Mark Thompson, who has just been nde director of regional broadcasting. John Gapper, Loron

LEGISLATION

Race law changes likely

The government is likely to announce plans to upste the 20-year-old Race Relations Act after the Stephen iwrence inquiry reports in February next year, it emend yesterday. Mr Lawrence, a black student, was stabed to death by a gang of white men in a suburban Londo street in 1993. The inquiry is expected to outline a series changes to policing and wider society to tackle rach.

This has led the Home Office to respond. Proposals nder consideration include a "naming and shaming" initiate to force public bodies to monitor recruitment and promion of people from ethnic minority backgrounds. The govnment, municipal authorities and the state health service would be told to publish the details of staff records ear year. The Commission for Racial Equality said: "The Lyrence inquiry has gone much further than any of us exicted, uncovering real problems but also in educating pulc opinion. There is growing pressure on the government i respond." Simon Buckby, London

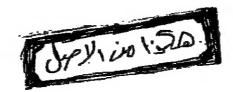
BIOTECHNOLOGY

Sector seeks code of practice

The UK biotechnology sector, mired in bad publicity after several high-profile scandals, is seeking to develop a code of practice to head off the threat of stiffer government regulation. The code is being written in the aftermath of the British Biotech debacle. Shares at the Oxford-based company collapsed this year and senior management left after being accused of misleading investors on the progress of its lead drug candidates. The push for more active selfregulation, being led by the Bioindustry Association, follows this week's resignation of two senior executives at Cortecs after revelations that two of the company's three drug development programmes were seriously behind

The BIA is understood to be taking advice from Cameron McKenna, the law firm, PwC and Ernst & Young, the accountancy firms, as well as the London Stock Exchange and several regulatory bodies. David Pilling, London





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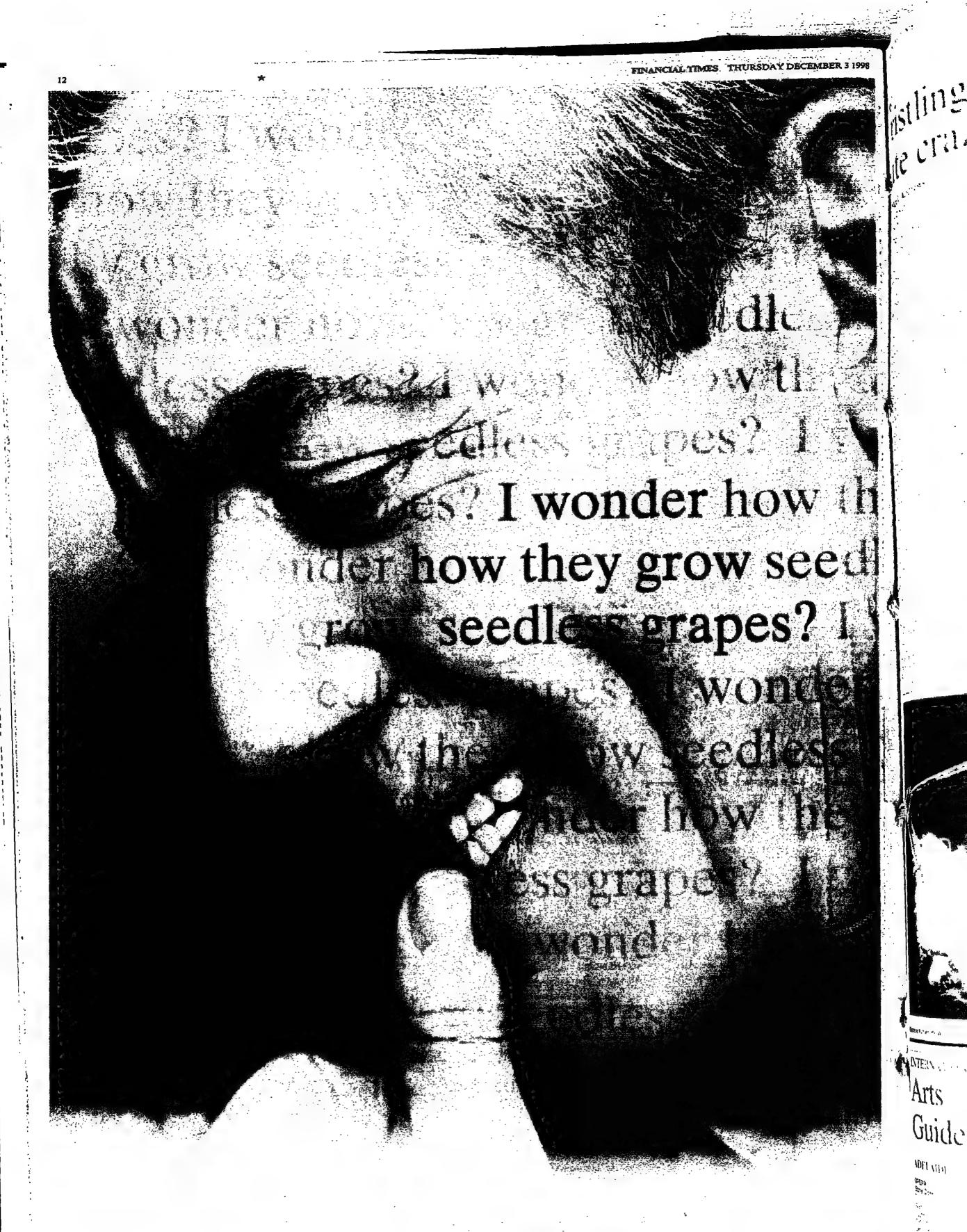
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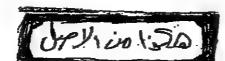
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Bristling with a cute craziness

But Nigel Andrews The film never stops looking Woody Allen's Everybody finds the sizzling rashers of promise lose their crackle

much - far too much - of a good thing. The porcine charmer, who parted us from our millions two years ago by winning sheepdog trials mals are nearly all being and consorting with other beasts computer graphic'd into loquacity, is waylaid in a big city en route to a BABE: PIG IN THE CITY "Fayre". Along with Mrs Boggett the farmer's wife. mistakenly drugs-charged at the airport, and Ferdinand the duck, sounding more than ever like Dustin Hoffman on speed, Habe fetches up in a Gothic tenement out of Delicatessen on the edge of a city out of - well, every-

Called Metropolis, it is the film's pièce de resistance. It features the Eiffel Tower, the Hollywood sign, the Statue of Liberty, the Rio Christ and a bristling array of skyscrapers. Babe 2 says effectively, "The whole world is a theme park and you, the audience, can be Another is the paucity of interactive by choosing from our lavish visual-digital & la corte. Not just places but animals. Not just animals but fun, song, comedy, action, slapstick and sentiment." For Babe gets ride in a pelican's bill. After involved with singing cats, a that we wait for crumbs of chimpanzes family, an orang-utan, a gang of dogs and Mickey Rooney as a

Some of the small children at the press show, not unsurprisingly, looked stupefied. The director George Miller he only produced Babe I but of promise in the sequel -

after 40-odd minutes we geist. want to say, "Stop. Please Babe: Plg in The City is too cute craziness can one andience take?"

> heyond chases is one prob-lem. (The waif-and-stray anipursued by evil humans.)

George Miller

YEAR OF THE HORSE Jim Jarmusch

ON CONNAIT LA CHANSON Alain Resnais

DANCING AT LUGHNASA Pat O'Connor

RUSH HOUR **Brett Anwar**

TWILIGHT Robert Benton

good jokes. These are expended early on, mainly in a rapturously funny - and beautiful - sequence of Ferdinand flapping after Babe's aeroplane before hitching a charm from the dependable. Babe, moments of visual ensorceiment from the sets, and the barber-shop harmony of the three mice, who once more win audience roars by chorusing the chap-

address the role of music in modern movies? Ever since

superb. It is never less than Says I Love You - music has technically brilliant. Yet had to operate like a polter-

Just when a movie seen give us a rest. How much 'quiet and normal, a pop song breaks across it reminding us that even non-musicals The lack of any plot must have tie in CDs. Alternatively, in this week's epoch is defined by a radio bleating out great bygone hits ("Anything Goes", That's my baby"). Or there is the avant-garde way of the new Alain Resnais film, in which straight-drama folk break into song like Dennis Potter characters gone Fran-

> And just sometimes when the poltergeist feels really aggressive - he takes over an entire movie, turning it into a giant soulc squat. Year Of The Horse is that dreaded thing (by me at least), a concert film. Oneand-three-quarter hours of wall-to-wall yowling involving Neil Young and Crazy Horse, directed by alternative cinema folkhero Jim Jarmusch.

Jarmusch jettisons the good will he earned from Strangers in Paradise, Down By Law and Dead Man by filming everything in Super-8. A motorway on a foggy night will give you an idea of average visibility; a soup-kitchen at lunchtime, average decibel level. At the press show critics were seen to wince, hold their ears or

Those still awake thought the film was better when Young sang sami-unaccom-panied, but he likes Crazy Horse and who are we to clearly saw sizzling rashers. What better moment to argue? Offstage, little is better. The group sats fire to a hotal bedroom, out of duty the screen-musical died - more than enthusiasm. One unrevived by recent bids at member waxes educational: necromancy like Rvita and "This is how you smoke a ties ensue. Resnats may no divine default.



out his threat to tell us the history of the band, including the fate of two drug-demised members. (Haven't these people seen and learned from This Is Spinal Ton?) Taken all in all. Year Of The Horse is the filmic equivalent of water torture. Suggestion for re-titling: "This is Chinese Tap."

On Connaît La Chanson may work best, as it did for me at a first festival showing, when watched un-subtitled. Flawed Francophones failing to follow the plot can invent their own reasons why the love-carousel'd Resnais regulars - Sabine Azema, Andre Dussollier, Pierre Arditi - keep lipsynching to song anatches. This is a comedy where everyone loves everyone else and Beaumarchais complexi-

of Last Year in Marienbad, and this film no masterplece. but he still likes to shock. The singing is like a series of surprise speech-balloons, coming from the heart by scenic way of the dia-

In Brian Friel's play Demoing At Lughnasa five sisters in 1980s Donegal experienced the growing up of the cen-tury. On stage the story had an elliptical grace. Emotions and meanings were felt between the lines. It was as if a play about tender negation - repression of love, postnonement of adulthood. denial of historical reality as mad missionary brother Jack comes home trailing the last clouds of Empire as the stormclouds of a new (dis)order gather - distilled the positive by a kind of

Pat O'Connor's film of the play feels like The Archers gone Irish. Everything is folksy, winsome and "opened out". That is, people go for long walks instead of sitting still and letting us hear Friel's dialogue.

The cast is led by Meryl Streep, knitting a faultless accent by the fireside. while Kathy Burke and Sophie Thompson emote and Michael Gambon registers guppy-like naive wonderment as Uncle Jack ("I'd like you all to have a lovechild"). There is no sense of a surrounding community or a believable period, beyond the incessant nudgings of the radio whose pre-second world war hits finally send everyone out for a liberating

Rush Hour is a relief. Here life is simple, fast and modern, with ex-Hong Kong - comes this moodily antedi-

stunt star Jackie Chan and luvian roman noir about an ex-standup black comic Chris Tucker paired as cops investigating the kidnapping of the Chinese consul's

Even in a buddy action thriller music can have its role. The two heroes from irreconcilable black oriental backgrounds define their differences by riffing rival times at each other. (You are what you bop to). Elsewhere, in the best action tradition, they smash cars, leap from tall buildings and confront velvet-cadenced English villains (Tom Wilkinson sounding alarmingly like James Mason).

Twitight is Old Hollywood ing-writing-directing team of Nobody's Fool - Paul Newman, Richard Russo, Robert (Kramer Vs Kramer) Benton best way Max Steiner could

ex-private eye (Newman) uncovering murky secrets for, and among, the family he oddly houses with (Gene Hackman, Susan Sarandon, daughter Reese Wither spoun).

You cannot complain of decrepitude since that is virtually the film's subject. Hackman is dying, Newman is grouchy and rival detective James Garner says things to him like "Prostate acting up yet?"

Actually no one acts up. The restraint, whisked into Expressionist aquatints by ex-kieslowski cameraman Piotr Sobocinski, becomes appealing, giving even the sub-Chandler plot a touch of elegy. As for the music, it sounds like Max Steiner on downers, which is about the

Estable Kohlen the Witch is a pertionnime harn and the Lion a washout in the new RSC production

No magic the other side of the wardrobe

THEATRE

ALASTAIR MACAULAY

C.S.Lewis's classic children's and the Wardrobe has - or so it occurs to me after watching the new Royal Shakespeare Company stage adaptation of it and remembering a story I once loved and re-read - its considerable charms, its tiresome shortcomings, and two extraordinary virtues.

The charm is partly that it is a cornucopia of world mythologies. Another factor is Lewis's gentle wit: any child can relish an adventure story that starts in a the most weak, the most snowbound realm that is always winter and never

The shortcomings are simply that Lewis's story is Christian, royalist and, worst, terminally English. The Christianity is patent; the royalism is, I suppose, harmless: our four heroes

faun serves sardines on world from evil. toast; Father Christmas Beaver know their place, and talk in charmingly working-class dialect; and we are told that Giant Rumblebuffin comes from "One of the most respected giant fami-

lies in Namia."

Still, the two virtues are heartstopping. And they are intimately connected at the centre of the story. One is that one of the four children betrays his siblings to the White Witch (Imagine The Wizard of Oz if the Tin Man had betrayed Dorothy & Co to the Wicked Witch of the West!) Lewis makes Edmund complex, and morally by far the most interesting of the children. The other virtue is that Lewis dares to tackle the most bizarre central tenet of Christianity head-on: the Lord of the World, Asian the Lion, gives himself up, in Edmund's liam Mannering - suddenly place, as the Witch's victim; fizzles out (thanks to bad clunky. Mark Henderson's

step through the wardrobe is killed by her for Edmund's dramatisation and direction) lighting lets us glimpse what

features become clear or interesting in Adrian Mitchell's cosy little stage adapta-

The virtues of C.S. Lewis's classic story are not brought out by

this cosy

adaptation tion, as staged by Adrian Noble. The wardrobe is OK. But the witch is a pantomime bam. And the lion is a washout. The Englishness and royalism of the story are all too apparent, but the Christianity is nervously handled and cruminily narrated. Edmund - very well played in Act One by Wil-

hope and all justice in the world; but here it seems merely a peculiar gesture in some black magic act. 'What's happened to the lion?" asked an intelligent five-year-old at this point:

the child is already a good Because this is Christmas. Mitchell has shoved songs in. What with his tepid lyrics. Shaun Davey's crummy music, the RSC's incorrigible fondness for bad amplification and Adrian Noble's

production number effectively, this Lion, Witch, Wardroos is the worst musical I have seen in, oh, at least four months. There is not one rhythm that raises the pulse of the show, not one melody to lift the heart. Anthony Ward has provided picturesque designs, but certain scene-changes are uncharacteristically

inability to stage a single

and inherit the royal thrones sins; and then - miracle of into a tepid plot device. should be unseen and leaves of Narnia by divine right. all miracles - returns from Then, when the White Witch unmagical what should be But the Englishness! The death to life and saves the plunges her crooked dagger enchanting. Noble, Ward, into Aslan's heart, we're and Henderson are all pro-Alas, only a few sof these meant to feel the end of all fees on als: I don't doubt that ter show than it currently is. But Noble doesn't seem to believe in either Aslan or the Witch: the former is played by the most laborious actor in the cast (with some ghastly amplifications), the latter receives what I hope is the least serious and most superficial performance of Estelle Kohler's career, and the story always sinks whenever either of them is

> Because this is Christmas and because bordes of children and grown-ups are simply bappy to see beloved stories acted out by real people it will be watched with a great deal of dewy-eyed affection; and the story, fairly well told until Act Two, is spell-binding, Still my eyes stayed dry; and the child in me got the fidgets.

Sponsored by Weeky Wete-

Guide

ADELAIDE

OPERA State Opera of South Australia The Ring: second cycle of Wagner's opera. Performed in Australia for the first time since 1913, The Ring is conducted by Jeffrey Tate and includes Janis Martin among the cast; to Dec 4

AMSTERDAM OPERA

Netherlands Opera, Het Muziektheater Tel: 31-20-551 6911 The Queen of Spades: by Tchaikovsky. Conducted by Sernyon Bychkov in a new staging by Lev Dodin. An international co-production that will travel to Florence and Rome: Dec 6, 8,

BARCELONA

Picasso - Engravings 1900-1942: for Walter Braumfels's operation with more than 250 works from the Management of the 250 works from the 250 works than 250 works from the Museé

Picasso in Paris. It presents INTERNATIONAL Picasso's engravings as a cleary, a stally extensional of his emotions: it follows the different themes and techniques that inform the artist's work from Dec 4 to Apr 4

> BRUGES EXHIBITION Wusée Memling Tel: 32-50-44 8644 From Memling to Pourbus: exhibition illustrating Bruges' importance as an artistic centre in the 16th century. Covering the period between Hans Memling (c.1490/40-94) and Pleter Pourbus (1523-84), it contains paintings, drawings, sculptures, tapestries and manuscripts; to Dec 6

CHICAGO OPERA Lyric Opera of Chicago Tel. 1-312-332 2244 www.lyricopera.org Rise and Fall of the City of

Mahagonny: by Kurt Weill, libretto by Bertolt Brecht. Conducted by Sylvain Cambreling, with a cast including Catherine Matitiano and Kim Begley; Dec 4, 7

COLOGNE OPERA Oper der Stadt

forgotten until a recent recording. This production is conducted by Bruno Weill and staged by David Mouchtar-Samorai; Dec 6

FLORENCE

OPERA *** Teatro Comunale Tel: 39-055-211158 www.maggiotlorentino.com La Bohème: by Puccini. Conducted by Serriyon Bychkov in a staging by Jonathan Maler:

FRANKFURT OPERA Oper Frankfurt

Tel: 49-69-21237 999www.frankfurt-business.de/oper Die Zauberflöte: by Mozart. Conducted by Guido Johannes Rumstadt in a staging by Alfred Kirchner. With a cast including Britta Stallmeister and Kirsten Blanck; Dec 3, 5, 7

HELSINKI

OPERA Finnish National Opera Tel: 358-9-403 021 Anna Bolena: by Donizetti. Conducted by Maurizio Barbacini in a new staging by Jussi Tapola, with designs by Arina Kontek, Dec 4, 8

HONG KONG

CONCERTS Cultural Centre Concert Hall HK Philharmonic Orchestra: violin for Water brauties substanted solist Dmitry Sitkovetsky features. Premiered in 1920, it was banned solist Dmitry Sitkovetsky features. In works by Weill, Mozant and Beethoven; Dec 4, 5

LONDON CONCERTS

Tel: 44-171-638 8891 London Symphony Orchestra: Sir Colin Davis conducts a series of works by Eiger; Dec 6, 9

Royal Festival Hall Tel: 44-171-960 4242 Messiah: by Handel. Performed. by the Mozart Festival Orchestra and Chorus in 18th century costume and a candlelit-style setting, ian Watson is the conductor, Dec 5

Wigmore Half Tel: 44-171-935 2141 Fazil Say: Turkish pianist makes his first London recital. Music by Bach, Berg and Mozart features, as well as some of Say's own compositions; Dec 7

Loadon Coliseum Tel: 44-171-632 8300 Borts Godunov: by Mussorgsky. Conducted by Noel Devies in a new staging by Francesca Zambello, with sets by Hildegard Bechtler. Gidon Saks sings the

title role; Dec 4, 8

THEATRE National Timetre Tet: 44-171-928 2252 Betrayal: by Harold Pinter, Trevor Nunn directs Pinter's 1978 play, with a cast including Anthony Calf and Imogen Stubbs; Lyttleton Theatre;

Dec 4, 5, 7, 8, 9

CONCERT Bridgewater Heli Tel: 44-181-907 9000 London Symphony Orchestra: conducted by Sir Colin Davies in works by Eiger and Brahms;

NEW YORK CONCERTS

Tel: 1-212-875 5030 www.lincoincenter.org New York Philhermonic: conducted by Kurt Masur in works by R. Strauss. With soprano Deborah Volgitt and hom soloist Philip Myers; Dec 3, 4, 5, 8

OPERÁ

Tel: 1-212-362 6000 www.metopera.org La Travieta: by Verdi. Production by Franco Zefftrelli with a cast including Patricia Recette and Marcelo Alverez. James Levine is the conductor, Dec 4

PARIS CONCERT

MANCHESTER

Avery Fisher Hall, Lincoln

Metropolitan Opera, Lincoln

 Le Nozze de Figaro: by Mozart. Production by Jonathan Miller, with a cast including Felicity Lott and Barbera Bonney. James Levine conducts; Dec 5

Orchestre de Paris: conducted by Emmanuel Krivine in works by Brahms, Beethoven and Dvorak;

Tel: 33-1-4561 (589)

OPERA Opéra National de Paris, Opéra Bastille

Tel: 33-1-4473 1300 vww.opera-de-paris.fr The Merry Widow: by Franz Lehár. Conducted by Armin Jordan and with a cast including Frederica von Stade; Dec 4, 5

Théâtre des Champs Elysées Tel: 33-1-4952 5050 The Magic Flute: by Mozart. Jean-Claude Malgoire conducts and the staging is by Pierre Constant, With La Grande Ecurie et ia Chambre du Roy and the Maîtrise du Centre de Musique Baroque de Versailles; Dec 5, 7,

ROME CONCERTS Accademia Nezionale di Senta Cecilia Tel: 39-6-6880 1044

Orchestra and Choir of the Accademia Nazionale di Santa Cec: conducted by Myung-Whun Chung in works by Mozart and Mandelssohn; Dec 6, 7, 8

TOKYO CONCERT

Orchard Hall, Bunkamura Tel: 81-3-3477 9999 Silent Cities: the Tokyo Philharmonic Symphony Orchestra performs the world

premiere of Mark-Anthony Turnage's composition. It ends a year-long festival of British

contemporary music; Dec 5 WASHINGTON EGGRUMON

National Gallery of Art Tel: 1-202-737 4215 www.nga.gov Edo: Art in Japan 1615-1868. Consisting of almost 300 works, this exhibition provides a comprehensive survey of Japanese art produced during the prosperous and peaceful Edo period; to Feb 15

TV AND RADIO WORLD SERVICE

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Business/Market Reports: 05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20;

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

or more than a year, the global economic crisis. Thailand July 1997 and spread rapidly throughout east Asia, and then to Russia and Latin America, has dominated the world economy Almost every country in the world has been affected to some degree. In just a few short months, some went from robust growth to deep

The social consequences of this sharp downturn are already apparent: children dropping out of school, millions of people either falling back into poverty or coping with already desperate circumstances, and poorer a storm?

The crisis caught most economic forecasters offguard. Even today, no one can predict how long the criwill be. But in the midst of this great uncertainty, it is important for us to have a sense of where the world economy is going, what has brought us to this luncture. and what we can do to improve our current outlook and to make another such global calamity less likely.

A new World Bank report east Asian crisis was not tries to provide this informacharacterised by excessive tion. Global Economic Prossovereign borrowing or pects and the Developing Countries 1998:99 examines imbalances. Although the the anatomy of the Asia cricurrent crisis has proved to sis and assesses both the be much harder to remedy. short and long-term outlooks it has taught us that the prifor the world economy in its mary role for fiscal and monwake. As the report makes etary policy in future financlear, there is not unanimity cial crises should be to shore on many of the key issues up demand, expand the surrounding the crisis. But it social safety net, recapitalise is another step toward banks, and restructure corporate debt. Social safety understanding the nature of the crisis, analysing the nets in particular must be a world's response, and providcentral component of the policy response. Excessively ing some guidance on how contractionary policies, in we can make crises less frequent in the future.

A snapshot of the world economy today shows a situation dramatically different from just a year ago. Deveioping countries have been hardest hit. Their per capita growth is expected to slow this year to 0.4 per cent, down from 3.2 per cent last year. In 1998, 36 countries that account for more than 40 per cent of the developing world's gross domestic product and more than a quarter of its population will likely see negative per capita growth. By comparison, in 1997 per capita income fell in only 21 countries that accounted for 10 per cent of

PERSONAL VIEW JOSEPH STIGLITZ

Lessons of the Asia crisis

The Dow may be over 9,000 and US economic growth strong but most of the world remains mired in an Asian slump

and 7 per cent of its popula- highly indebted firms, lead

domestic financial liberalisa-

Unlike the Latin America

national capital markets.

The rich world slows . . .

G7 GDP growth forecasts (%)

to high rates of bankruptcy. How did east Asia, the site making the tasks of corpoof miraculous economic rate and financial sector growth for three decades. restructuring and the restoration of business confidence find itself in the eye of such more difficult.

There is no single culprit for the problems that have revealed how difficult it is beset the region. The ecofor developing countries to nomic situation in each manage enormous private country differed. But Global flows without adequate expecludes that the origins of the

To deal with the risks crisis lay fundamentally in nosed by large capital flows, the interaction between two especially significant when things: the difficulties of financial systems are weak, the report suggests that tion and the problems associreforms must be comprehensive, and include a combinaated with volatile intertion of more flexible macroeconomic policies, tighter debt crises of the 1980s, the financial regulation and, where necessary, restrictions on capital inflows. Financial sector liberalisation, which can greatly increase the risk macroeconomic of a crisis, must be accompanied by stringent regulatory

> While the policy mix will vary according to each country's particular circumstances, social protection needs to be at its centre. Sadly, the poorest countries are unlikely to develop robust safety nets in the immediate future. In Indonesia and Thailand alone, the number of people failing back into poverty in 1998

> > the poor fall back

Transition countries

of Europe and Central Asi

the developing world's GDP economies beleaguered by could reach 25m. For poor people in countries without an adequate safety net, the crisis has had devastating

Nevertheless, there is

some cause for optimism. Although 1999 is likely to be another year of slow growth in developing countries. their situation could improve in 2000 and following years. Policymakers have recently announced a number of welcome steps designed to foster world economic recovery in the medium-term including interest rate cuts in the United States and Europe, a fiscal stimulus and financial revitalisation package in Japan, agreement on a Brazilian fiscal package and a precautionary line-of-credit,

assistance package in Asia. The crisis has also forced international financial institutions to examine how they responded to the crisis, and what lessons they might take on board in managing

future crises. The World Bank, for its part has re-affirmed its belief that social policy concerns need to be centrestage. While never a substitute for sound, pro-growth economic policies, social safety nets can help cushion the worst effects of the crisis

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on the poor and other vulnerable groups. After all, it is people, not governments that live out the harsh reality of crisis.

Another lesson we have taken to heart is that a stan-"one-şize-fitş-all" dard response to a financial sector crisis, such as east Asia's. clearly did not work and imposed a heavy cost on many in the region.

We must adopt a more comprehensive approach to crisis management that adopts more flexible exchange rates, tighter fiscal policy, and where necessary, some form of restrictions on short-term private capital flows. In other words, we must be more nimble and open-minded when responding to crises, and less influenced by the standard rescue formulae that worked well back in the 1980s debt crisis or, in more recent years, in

Mexico's economic crisis. its sister institutions continue to reflect on the les sons of east Asia, wider events over the nast year may well herald a new, more realistic and stable environment for developing coun-

We now have a better

and a Japanese-led \$30bn understanding of the institutional infrastructure that is required to make market economies work. The international community is giving serious attention to necessary improvements in the international financial architecture. There are many such improvements. The most important include: better bankruptcy laws; greater recentivity to interventions designed to stabilise capital flows: greater willingness to accept debt repayment standstills and arrangements entailing more equitable burden-sharing: and more recognition of the need for responses to crises that are better adapted to the circumstances of the country, and to protecting the most vulnerable within them.

These improvements in domestic institutions and in the international financial architecture will enable greater numbers of countries to enjoy more of the benefits and minimise the all-tooobvious perils of the global

The author is senior nice-president and chief economist of the World Bank in Washington, DC

LETTERS TO THE EDITOR

Charge of collective amnesia does little justice to Japanese apologies

Sir Your articles on President Jiang Zemin's visit to Japan (Naoko Nakamae, the expression "a small James Kynge and Paul Abrahams, 28 November)

contained misleading generalisations. Hiromu Nonaka, chief cabinet secretary, speaking at

his press conference on November 27, mentioned President Jiang's remark in the summit meeting. Mr Jiang said: "Although some people claim that history is a finished business, we should tory and this should be the basis for Japan-China friendship in the future." Mr Nonaka went on to say that he

Nonaka was again quoting President Jiang, who used group of Japanese militarists" in his meeting with Prime Minister Keizo Obuchi, in underscoring the point that we Japanese could not erase the fact of having waged war in China, creating many victims on both

In Japan, the process of soul-searching and debate led to the unequivocal expression by the then prime not forget that period of his- minister. Tomiichi Murayama, on August 15 1995 of "deep remorse and heartfelt apology" over Japan's colonial rule and aggression durshared the sentiment as a ing a certain period in the politician who had lived in past. The same message was

such an era. Further, Mr conveyed face-to-face by Prime Minister Obuchi to President Jiang.

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To dismiss all this as "collective amnesia" on Japan's part seems not only to be hiased but also to do little justice to the exchanges between the Japanese and Chinese leaders in which they discussed the past in earnest and set the framework for a partnership of friendship and co-operation for the future, thus marking a new phase in Sino-

Sadaaki Numata. Foreign ministry spokesman. 2-1-2 Kasumigaseki

Institutions of Emu unsuited | UK's equity to exchange rate system

Sir. My admirable friend strange bedfellow in joining Oskar Lafontaine in a plea for a system of target zones for exchange rates. ("How to target exchange rates", November 20).

Prof Bergsten presents all the usual arguments for such a system aimed at preventing misalignments of exchange rates. But when it comes to enforcing the system - keeping exchange rates within the agreed limits - he would rely first on central bank intervention, but to "assure credibility" central banks would have to be prepared to "alter their monetary policies to defend the ranges". That raises two problems. One is that the new European Central Bank is not prepared, if it is authorised, to divert its attention from its "primary

objective" of price stability. The other problem for all

diversion of monetary pollcies to influencing exchange Fred Bergsten has chosen a rates could have undesired effects on national economies. The obvious solution to this problem would be to use fiscal policy to offset those undesired effects. But Prof Bergsten does not mention fiscal policy in his article. Furthermore, fiscal policy is hardly flexible in any major country and is strongly constrained in the euro-zone by the Stability and Growth Pact.

Before we consider adopting target tones, let us make fiscal policy more flexible and usable. That is likely to be desirable to the individual member states of Emu even in the absence of target

Robert Solomon. guest scholar. The Brookings Institution. 8502 W.Howell Road. Maryland 20817

culture lifts payout figures

From Mr William Claxton

Sir, John Flynn (Letters, November 25) criticises UK companies for paying out excessive dividends. What his analysis ignores is that UK companies have a higher level of equity funding compared with their international peers which are more reliant on bond and bank finance and pay out interest rather than dividends.

The success of incomeproducing equity investments shows the retail receiving an income on his investments and the fact that this need has historically been met may explain the greater inclination of UK investors to equity.

William Claxton-Smith. director, UK equities. Clerical Medical Investment 15 St James's Square, London SW1Y 4LQ, UK

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The Koran and the sword

Leyla Boulton and Quentin Peel wonder whether Turkey's squabbing and ageing politicians will ever be able to form a stable government

or the 56th time in 75 years, Turkey is set to get a new government. Unless politicians get it right this time, there is a danger that the next, or the next but one. might be headed by an Islamist, or by a man in military uniform.

Yesterday's decision by Süleyman Demirel, Turkey's 74-year-old president, to ask his lifelong rival, 73-year-old Bülent Ecevii, to form a new government, is both ironic and revealing. For when the leftwing Mr Ecevit was last prime minister, he earned the bitter eamity of Mr Demirel for enticing members of his rightwing party to support Mr Ecevit's coali-

You may have declared yourselves a government. but you will never be able to Mr Demirel declared, denouncing the 1978 coalition as a "shameful administration". Two years later, as the country descended into factionfighting and urban violence, the democratic order was overturned in a military

Mr Demirel must be hoping his words do not come back to haunt him now. A stalemate at the heart of Turkish politics has forced the president to turn to his old enemy as the only man capable of holding together a coalition government of political opponents who are as embattled today as their predecessors were in the

There is a terrible sense of dėjā vu in this. Yet the need or a stable administration in Ankara could scarcely be greater. Its international relations are in a state of upheaval, above all with the European Union, its most important neighbour and trading partner. And there is a vacuum in its domestic politics, into which either the growing Islamist movement or the powerful Turkish military could step in

Turkey's neighbours in the Middle East, and allies in Nato, are looking on with considerable anxiety. The lack of political stability is also causing some soulsearching within Turkey's business community, in



Bülent Ecevit: asked to form Turkey's own povernment

still battling inflation of around 70 per cent a year. On the international front. the failure of the EU last year to accept Turkey as a fully-fledged candidate for membership has alienated the entire political establishment. At the same time, the fact that the EU is negotiating to admit Cyprus, without reconciling the Greek and Turkish parts of the island, is seen as further evi-

dence of betrayal. Against that background, the country has been swept by a wave of resentful nationalism over the refusal of Italy to extradite Abdullah Ocalan, leader of the Marxist PKK, the Kurdish independence movement which has been fighting a brutal guerrilla war for almost 15 years against the Turkish army.

At home, the main secular political parties are threatened by the rise of an Islamement that draws its support from the urban poor and which emerged as the largest single party at the last elections in 1995. The Islamists are regarded with deep suspicion, if not open bostility, by Turkey's powerful military establishment. There is a real possibility that if the Islamists, in the form of Fazilet - the Virtue party - were to emerge as a likely future government, the army would intervene to protect the secular nature of the constitution

Most analysts in Turkey believe that the single most important source of trouble in the economy, which is in the political system lies as soon as April.

with the structure of Turkish political parties. The supreme power enjoyed by party leaders, who nominate all candidates for parliament, inhibits internal irresistible pressure on Necdebate. As one western diplomat puts it: "From the moment [MPs] are elected, they serve only the interests of the party leaders and forget about their voters."

As Messrs Ecevit and Demirel can attest, the system has also ensured remarkable longevity for Turkish political leaders.

"Instead of being agents of change, Turkish political parties are obstacles to says Gokhan change." Capoglu, who was expelled from the Democratic Left party for challenging the policies of Mr Ecevit.

The other problem is that ever since the military rewrote the constitution after 1980, political parties have had barely distinguishable programmes. "Most party members do not know what the basic principles of their own parties are." says Omer Faruk Gençkaya, a political scientist at Bilkent University in Ankara. "We do not see any colour differences between party programmes.

With two left-of-centre parties that are virtually identical, and two right-of-centre parties that are equally similar, no wonder voters are confused. According to one poll, 42 per cent of voters are undecided about how or if they would vote in the next election, which could come

this indecision have been Turkey's Islamist politicians, whose socially caring, anticorruption and moralising platform at least offers vot-

ers something different. "Islam is a threat in the sense that they are using religion to promote themselves." says Mr Capoglu. "Once they start, it is not easy to stop. But if Turkey fails to take action against the causes of the rise of Islam, rather than its consequences. Islam may become a larger threat."

The vital question now is how the military would react to this state of affairs. in contrast to the political

establishment, the army is popularly regarded as the country's single mostrespected institution. Last year, the military in effect ousted the first Islamist-led government by applying mettin Erbakan, the prime minister, to resign. In Turkey, it was called a "soft"

Few believe the military would allow Islamists a secand chance in government The Turkish constitution is clear: it bans "any interference whatsoever of sacred religious feelings in state affairs and politics" Nevertheless, Mumtaz Sov-

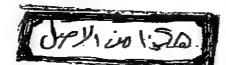
sal, a former foreign minis-

ter and now a columnist for the daily Hürriyet, says that in the past, the army has been prepared to allow some deviation from a rigid interpretation of the constitution. But there are limits, If such deviation were to reach "a level where the foundation of the secularist republic is threatened, for

instance if politicians say that people should be free to apply Islamic law, or make a non-secular republic, then the guillotine falls." Mr Soysal says. The military does not

want to intervene again, because it would dash hopesof Turkey being able to join the EU, which insists on the rule of democracy. But an Islamist government would be equally badly received.

As one senior western diplomat in Ankara said: "You can forget about Turkey's application to join the EU if they have any say in future



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The Control Print (Letter)

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... Thursday December 3 1998

Wizard growth act in Oz

Australia's third-quarter growth figures confirm in a dazzling way that this is one Pacific Rim country not caught up in economic crisis. While Australia's close trading links with Asia might have been a means of transmitting the contagion, its economy is actually growing at 5 per cent, one of the highest rates in the Organisation for Economic Co-operation and Development One of the main reasons is a pragmatic approach to monetary policy. Unlike neighbouring New Zealand, which worked itself into recession for its pains, Australia did not raise interest rates

instead, it accommodated a trade-weighted deprecation of some 25 per cent in the 18 months to August, and even allowed interest rates to fall quite sharply in the first few months of the crisis. The resulting growth record vindicates its policy of distinguishing between a real external shock and depreci-

ation caused by internally generated difficulties. The depreciation has limited the impact of falling commodity prices. Australia is also in any case less dependent on commodity exports than it was a decade ago. It is easier to find new outlets for its bulk mineral products than has been the case for New Zealand, which relies on its heavily marketed agricultural

Still, it is not all plane sailing. The counterpart of rapid growth ance of payments deficit to over 5 per cent of gross domestic product. Arguments that this should reduce naturally as the rest of the region begins to recover and Australia's own economy slows may be somewhat sanguine. Australia's domestic savings rate in the mid-teens is higher than that of the UK or US, but the gap with

investment is large.
Also, there must be some doubts about whether inflation can hold at its present levels of around 1.5 per cent. The Reserve Bank's decision to cut interest when its currency started to rates by a quarter percentage point even as the growth figures were being announced signals few worries on this score.

Perhaps the economy will slow down quite sharply. If not, the authorities will face a difficult test of deciding how far to tighten the reins while the externel environment remains weak. Yet persistent low inflation

also shows the greater competi-tive pressures introduced into Australia through a long period of economic reform have really begun to bite. Gone, it seems, are the bad old days of the wageprice spiral and closed markets. Australia was once regarded as

one of the more hopeless cases in the industrial world. Its response to the Asian crisis suggest this is an economy whose prospects should now be taken seriously.

Net commerce

When the US government's This is allowing private-sector working group on electronic com- solutions to emerge to issues merce first met in December 1995, only 10m people were connected to the internet. Three years later - as the group reported on tronic money.

Monday - the figure is 140m. This approach has usually paid

More significant than that

guiding spirit - that this heacome about without a cumber-

By emphasising the need to keep the net free of intrusive government regulation, and heading off the threat of "bit taxes" on the flow of internet traffic, the . US has done the net a great service. It has also responded with commendable sensitivity to the concerns of other governments, ensuring that though the net has distinctively American roots, its future is a shared responsibility.

Several issues remain undecided, however. One of these is the conflict between the US and the European Union over how to ensure privacy for internet users. There are signs that a resolution to this dispute is possible; and the risk of precipitate action by

the EU has receded. tive government intervention.

such as proving the identity of online customers, or creating standards for new types of elec-

off. There are a few areas, howincreese in scale, however, has ever, where the US is itself guilty been the transformation of the of clumsy action. Despite some net into a global highway for relaxation of the rules, it still imposes unnecessary restrictions ectronic transactions. imposes unnecessary restrictions. It is a tribute to US internet on the export of some forms of opment of cross-border electronic commerce. And it takes an excessome regulatory framework and - sively heavy-handed approach to protecting the intellectual property of US brand-owners.

Foreign governments tempted to criticise US inconsistencies should beware, however. Though US internet policy is not above reproach, its instinct for flexible. evolving private-sector solutions is greafly preferable to the more dirigiste attitudes that still prevail in many other countries.

If the next three years of the internet are as fruitful as the preceding ones, there is much scope for optimism. Two hopes in particular are worth highlighting. As other governments start to create legal frameworks for electronic commerce, they should follow the US light-touch model. And as US policy develops without Mr Magaziner - who is leav-In general, the US approach ing the White House - it is to be has been to avoid overly prescrip. hoped that it retains the same international sensitivity.

COMMENT & ANALYSIS

FINANCIAL TIMES Please wait in departure lounge

Michael Skapinker looks at a terrible 18 months for Boeing and argues that there may be worse to come

f you peer through the chain-mail fences around desert airports in Arizona and California these days, you will see something not witnessed since the aftermath of the Gulf war and the last recession: surplus Boeings arriving for

The aircraft are largely older models being discarded by Asian airlines, whose profits have turnbled in the wake of the region's financial crisis. Boeing, the world's largest aircraft maker, has been worried about the Asian crisis for months, but was confident it could sell any unwanted aircraft elsewhere.

Late on Tuesday, however, Boeing admitted that the Asian crisis went beyond anything its executives had feared - and the effects on the group would be severe. "The situation in Asia has worsened dramatically," Philip Condit, Boeing's chairman, said yesterday. "It's much deeper and more prolonged than we first estimated."

The result is that Boeing now forecasts that its profits next year will be 25 per cent lower than expected. About 20 per cent of the Boeing workforce - nearly 50,000 people - will lose their jobs. Output of Boeing aircraft models, particularly its flagship four-engined 747, will be cut back sharply. And Boeing will make no money whatever this year on the 550 commercial aircraft it plans to deliver to airlines. "It's not a pretty picture," Harry Stonecipher, Boeing's president, edmitted.

miserable 18 months for Boeing. Late last year, it had to suspend production of 747 and 787 jets for month when its old-fashioned Seattle factories seized up with the strain of trying to produce too many aircraft. The group, renowned for treating its executives gently, has this year sacked several of them, including Ron Woodard, head of its commercial aircraft division. Yesterday, analysts were again asking how long Mr Condit could survive.

Just how much trouble is Boeing in? For the next few years, quite a lot. Net earnings for this year are expected to be slightly above \$1hn, as previously fore-cast. But not earnings next year are now expected to be between \$1.5bn and \$1.5bn, compared with

Operating margins on commer-59 per cent of Boeing's turnover try, Boeing has not faced preslast year, are expected to rise sure to modernise from lean, cent to 3 per cent in 1999. They are then expected to fall back slightly in 2000, because Boeing will be delivering more of its newer model aircraft, which have lower initial profit margins.

How did the world's leading aircraft maker, and one of the world's most admired companies reach this state? One possibility is that Boeing blundered by buying McDonnell Douglas, also of the US, last year, distracting managers from their central task of making commercial aircraft.

While the burchase of McDonnall Donglas, and the long battle to win approval for the deal from a hostile European Commission, did indeed consume much of Boeing's time, in fact the acquisition has stood the group in good stead. McDonnell Douglas, the world's largest maker of military jets, came with a substantial defence business, increasing Boeing's defence and space revenues from \$5.5hm in 1996 to \$18.1bm last

year. This was handy at a time of trouble in the civilian aircraft

While profits from commercial aircraft have plunged, the mili-tary business has remained resilient, with operating margins of 7 per cent to 8 per cent this year expected to increase to 9 per cent next year and up to 10 per cent by 2000. While the last downturn in the commercial aircraft business, in the early 1990s, coincided with the sharp fall in defence spending that followed the ending of the cold war, military business is likely to be more depend-

able this time round. So if it was not the McDonnell Douglas takeover that caused Boeing's problems, what was it? One of the most important reasons for Boeing's difficulties was its antiquated production methcial aircraft, which accounted for ods. Unlike the US motor indusnies. Roeing's only real competition came from Airbus Industrie. the European consortium. Because Airbus seemed a less formidable competitor, the US company failed to take it sufficiently. seriously for many years. .

Airbus's manufacturing has iong been more capital intensive than Bosing's. While Workers swarm around the aircraft at Boeing's Seattle plants, the Airbus final assembly lines in Toulouse appear to be almost unstaffed. The Airbus partners -Aerospetiale of France, Daimler-Chrysler Aerospace of Germany, British Aerospace and Casa of Spain - make aircraft components in their own factories. They then fly the parts to Toulouse, where a small number of employees fit them together using automated machine tools. For years, Boeing dismissed the idea that Airbus's production techniques were superior. When asked last year whether British

Aerospace's much-admired Airbus wings factory in Chester could be a model for Bosing, Mr Woodard said: "The Brits? Come off it." Many Boeing executives persuaded themselves that Airbus's growing market share was the result of the subsidies it

management. In early 1997, halfway through its \$1bn factory

Boeing cut prices and took in more orders than its factories could handle

update, airlines began increasing their orders. Desperate not to lose customers to Airbus, Boeing cut prices and took in more orders then its factories could handle. The cost of the disruption helped to push Boeing last year to a net loss of \$178m - its first for 50 years - and led to Mr Woodard's dismissal in September. Bosing has made up some of

the lost ground. Alan Mulally, Mr Woodard's successor as head of the commercial aircraft division, expects Boeing to meet its target of delivering 550 aircraft to airlines this year and 620 next year. But just when Boeing might have expected to reap some benefits from its manufacturing improvements, it will have to cut output in 2000 to 490 aircraft as the drop in Asian orders begins to bite. There have been few outright cancellations. Mr

Condit said yesterday that only

Philippines Airlines. whose future is in doubt, has cancelled orders. Analysts say other Asian carriers have either deferred orders or failed to convert options into commitments.

ments rather than superior production or aircraft. Nevertheless, in Seattle Boeing slowly began to modernise its manufacturing, computerising its design and inventory

received from European govern-

a London-based analyst with can't ascape from it."

Aerospace executives and analysts have long warned that the aircraft market was likely to deteriorate some time early next century. Aircraft sales track the world economic cycle closely. Managers comforted themselves with the thought that the downturn this time was likely to be less severe than in the early 1990s because airlines had not over-ordered and because, come what may, carriers would need to replace older aircraft to comply with new noise restrictions.

earlier than the industry expected. Nor can it now be confined

Most damagingly, Boeing says

it will have to cut output of 747 month by the end of next year. If market conditions fail to improve by 2000, Boeing will reduce 747 production to one a month. This is hitting Boeing where it hurts most: Airbus does not make an aircraft as big as the 400-seat 747 and Boeing has traditionally enjoyed healthy margins on this

particular model. Production of other Boeing But the European consortium models will also be cut, but not has fewer Asian customers and is as sharply. Bosing will continue therefore less exposed to the crito turn out more than 20 narrow- sis there than Boeing. It is also a bodied 737 sircraft a month. But confederation rather than a limthe 737 has to compete against ited company and does not pub-Airbus's successful A320 family lish accounts - although it plans and price competition will con- to become a profit making entity

Analysts say that while Boeing bears the blame for its production and cost difficulties, the production cutbacks would have happened anyway. "It's the cycle, stupid," says Nick Cunningham,

Asia's financial crisis meant. however, that downturn started

to Asia. As 118 and European airlines have seen their Asian passenger numbers fall, they have moved aircraft on to North Atlantic routes, increasing price competition. "The problem with aeroplanes is that they fly from one place to another," says Mr Cunaircraft from 3.5 a month to 2 a ningham. "Capacity knocked out of Asia ultimately starts to

displace business elsewhere." There are already signs of the crisis moving outside Asia. British Airways, one of Boeing's biggest wide-bodied aircraft customers, has replaced orders for five Boeing 747s with smaller 777s.

Analysts believe the downturn will eventually affect Airbus too. price-cutting, and consequent damage to profit margins, is therefore more difficult to

One consequence for Airbus is that its plans to launch a 550seater "super jumbo", provision-Salomon Smith Barney. "You ally called the ASXX, look even more unlikely as airlines out for smaller aircraft.

How long will Bosing take to overcome its crisis? Mr Stonecipher said yesterday that he expected the Asian crisis to last for another two to five years. "We hope it's three," he added.

Mr Condit conceded that the outlook could be even worse than Boeing now expects. By this time next year, even the production figure of one 747 a month could look optimistic. "If the [Asian] economic situation spreads to Europe and the US," he said, "there's clearly room on the downside.'

The desert plane-aporters are likely to be kept busy.

Starting rate

flurry of speculation over what the starting interest rate for European economic and monetary union will be. There is still a picking up. Wage claims are manchance that the launch of Emu could coincide with a valuable rate cut - if the European Central Bank is bold enough.

The euro-zone central banks rate for broad money growth of came under heavy criticism for 4.5 per cent leaves it a fair their inaction during the recent period of global financial turmoil, although the process of interest rate convergence meant that there was some monetary easing

in the euro-zone as a whole. - Now that the immediate crisis has passed, there is not so much pressure for lower rates. But at the same time, the domestic economic case for a rate cut has been building, as the effects of the global slowdown hit home.

On Tuesday, even the previously optimistic Wim Duisenberg, president of the ECB, downgraded the official 1999 euro-zone output growth forecast from 3 per cent to 3.5 per cent, and warned that the actual outcome could be lower still. Business confidence across the euro-zone has declined significantly, industrial production growth is slipping and recent GDP figures for France and the Netherlands failed to meet expectations. And, for all the talk of abandoning the Stability and Growth Pact, fiscal to set the interest rate that will

The next few weeks will see a push price pressures lower than they have been for many years. Euro-zone inflation is now I per cent, and shows little sign of ageable, and should remain so, with only marginal falls in unemployment rates. And the ECB's choice of a generous reference

> margin for manoeuvre. The effect of interest rates on the euro exchange rate should also not be ignored. With the Fed now perceived to be a rate-cutter, there is a risk that a stubborn ECB could send the euro soaring. This would have heavy costs, both for European growth, and for the ability of Europe to help absorb the trade shocks in the

> world economy. Finally, if there is to be a rate cut at all - as almost all commentators now expect - there is a purely practical reason why it would be better to have it at the outset. It is crucial that the first few months of Emu go smoothly. Uncertainty over whether a rate cut is imminent would be an

unnecessary complication. The inflationary risks of an interest rate cut of, say, 30 basis points are negligible. The economic benefits could be very real. The ECB, in its final pre-Emu meeting on December 22, is due be in place at the beginning of policy remains relatively tight.

Meanwhile, the deflationary

mext year. The opportunity to world environment has helped to esse should not be missed.

Flagging interest

Next year's chairmanship of the Organisation for Security and Co-operation in Europe is Norway's biggest diplomatic venture yet. The country, which has a creditable record in peacemaking, will play a key role in the OSCE's peacekeeping mission to Kosovo.

But as prime minister Kjell Magne Bondevik prepared to give the opening address to yesterday's OSCE ministerial meeting in Oslo, it appeared that the events' organisers hadn't successfully negotiated the shifting sands of the former Yugoslavia. An official rushed to change the display of flags around the conference half before any touchy Balkan delegate spotted an emblem that

had passed its sell-by date. Bondevik's opening address went down well, but it took time to reach a wider audience via the Internet: students disrupted his office's communications in a protest over 1999 budget cuts. It could be a lively year.

Cathay come home There was gloom around the

Philippines yesterday after the collapse of talks about Cathay Pacific taking a stake in aijing Philippine Airlines. If, as seems to have been a sticking point, : Manila won't cede management

control, it'll be tough to bring anvone fiving to the rescue. But the atmosphere was brighter in Cathay Pacific's Manile office where staff read with interest the Hong Kong carrier's in-house newsletter CX World. Amid much talk of turbulence in Asian aviation. there was joy over a handful of countries where results didn't fall

below budget. One such was the Philippines Theiped no doubt by the problems of Philippine Airlines". Or, as Cathay might say of the scuppered deal, heads you win, talis you win.

Grape expectations California's Fetzer Vineyards

looks an attractive place. "Tour the Wine Country. Without the Tourists," says its new advertising campaign, inviting punters down a quiet, sun-dappled, tree-lined lane for a taste of Chardonnay. The only trouble is that that perticular lane

is in France.

The Valley Oaks winery has come up in the world since 1958, when lumber merchant Barney Fetzer bought the abandoned overgrown estate and turned it into one of the US's top wine names. But the approach road is lined with white-painted elms, which Fetzer's ad agency thought didn't have enough bucolic charm. Brown-Forman, Fetzer's

Kentucky-based parent, is

unrepentant. The photograph, it says, is "representative of the tree-lined lane leading to Valley Oaks*. And advertising is *about representing an experience a consumer may enjoy". Not necessarily showing it.

Forever Felix

OBSERVER

Russia's Communist-dominated ower house of parliament has a great sense of timing. As international Monetary Fund boss Michal Camdessus ended crisis talks with the nation's leaders, the Duma was working out how to spend some of the money it ropes will be available.

The communists are still smarting about the 1991 removal of the statue of Felix Dzerzhinsky from outside the Lubiyanka, the KGB headquarters. Yesterday the Duma voted to spend some of the IMF dosh on putting the bloodthirsty founder of the Cheka secret police back in his rightful" place.

Clear-out

As if Total's takeover of Belgium's PetroFina on Tuesday was not enough, Deutsche Bank dropped in on Brussels yesterday and snapped up Crédit Lyonnais Belgium. CLB was a local subsidiary of the French bank, but the deal reinforced the sense that Belgium is being rapidly denuded of its corporate assets. PetroFina will be the sixth

member of the Bel-20 index of

leading Belgian stocks to disappear from the Brussels bourse by takeover in little over i year, following venerable holding company Société Générale de Belgique, steelmaker Cockerill Sambre, insurer Royale Belge, and banks Générale de Banque and banks Banque Bruxelles Lambert. Five of the six went to foreign buyers: Fortis, which took over Générale de Banque, is half-Dutch

With the euro fast approaching, one market market-watcher suggested a new banner for the bourse: "End-of-currency sale: everything must go".

Safe house

Organisers of the Washington conference into Holocaust-era assets have expressed dismay about the security farce on the

event's fringes. On Tuesday, after the session ended, the world's press were writing the story of a dramatic day. They had to stop when armed guards drove them and embarrassed State Department

officials on to the street. Yesterday, security got tighter as the guards decreed that journalists must not talk to delegates. To ram home the message, the press was denied access to the conference coffee pot. The media battled bravely on without caffeine until security hit on the ultimate deterrent and stopped the scribes getting to the toilets.

Financial Times

100 years ago

Fighting Chickens Of Cuba Railways in Cuba are evidently more liberal in their Ideas as to passenger luggage than in Britain. The stem officials of our companies frequently decline to allow ladies to be accompanied by their little lap dogs, even when tickets are purchased for the animals. It was popularly supposed that ailways in Spanish ssions copied in their regulations the Iron-handed policies of the Government. Nothing could be further from the truth. According to the "Chicago Record," the hand

luggage of a gentleman may

consist of "one hat-box, one

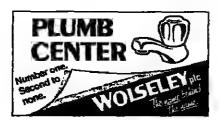
satchel and one fighting

50 years ago

Oil Search is Dropped Perth, Dec. 2. Richfield Oil Corporation of California has dropped its plans to spend £1,000,000 on searching for oil in the north-west of Western Australia. The company has announced that in consequence of its new find in California and because of the international situation it has

decided to withdraw from any

Interest in oil in West Australia



FINANCIAL TIMES

THURSDAY DECEMBER 3 1998



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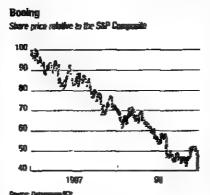
Boeing ... going ... gone? Rarely has a company so misread conditions in its own industry. Granted, Boeing is not the only one to have underestimated the severity of the Asian crisis - on which it is blaming its latest profits warning. But the aircraft maker must take responsibility both for ramping up production too ageressively from 1996, when it was battling for market share with Airbus; and for not reacting quickly enough once east Asian airlines started delaying orders last

The result is profitless prosperity. Boeing's commercial aircraft deliveries and revenues will actually rise this year and next. But it will basically make no money on them, with margins of 0-3 per cent forecast until 2000. This is for two reasons. First, the group is locked into the rock bottom prices at which it aggressively sold aircraft in 1996/97. More depressingly, despite all the cost cutting, it currently takes Boeing 20-30 per cent more man hours to assemble an aircraft than it did in 1992.

There is worse to come. The real impact of production cuts does not even hit until 2000 and Asian demand may take three more years to recover. With Airbus taking market share. Boeing is bearing the entire brunt of the industry's cyclical downturn. Thankfully, its defence side, a third of revenues, remains solid. But given the scale of mismanagement, it is time for Phil Condit, chairman, to take responsibil-

Oil synergies

Why do investors' reactions to big oil's big mergers seem so contrary? Exxon's promise of a \$2.8bn boost to operating income within two years from Mobil should trump the \$25n British Petroleum sees by 2001 from Amoco. But that has not been rewarded in the market. BP and Amoco's combined market value has risen by some \$19bn, over 50 per cent more than the synergies are worth in today's money. in contrast, Exxon and Mobil's combined value has increased by only around \$5bn. a fraction of the \$18bn present value of their savings. And Total/PetroFina's promise of a measly \$350m saving has been given the thumbs down altogether, with over \$3bn knocked off their com-



The anomaly is explained easily enqueh. BP's Sir John Browne is a master-masseur of investor expectations: the which leaves plenty of margin for pleasant surprises along the way. And BP benefited from being the first mover in an industry reluctant to consolidate. It could present its deal as the best strategic fit, and one that catapulted it into blg oil's super-league. Exxon/Mobil, by contrast, has suffered from me-too-ism. Already in the super-league, its savings with Mobil are from prosaic cost-cutting, rather than radical strategic repositioning. At least, however, the bulk of the savings could not have been achieved by each company

The same cannot be said of Total/Petro-Fina, which appears largely motivated by the desire to get bigger than French rival Elf, whatever the consequences for its highly rated paper. Not only has Total failed to explain where its savings lie but it is unclear whether it can realise them at all. National sensitivities about the fate of former state oil companies in Europe may be softening, but political obstacles to serious restructuring are not falling at the same pace. Instead of putting on muscles in Brussels. Total is thickening out with expensive flab.

Air France

The engines are revving up for the Air France roadshows. Yesterday's scanty figures were designed to being home the mes-

pilots' strike, first-half net profits appear to have jumped 50 per cent to FFr2.5bn. This was helped by one off gains, but the underlying improvement still seems close to 20 per cent. The FFr3bn cost-cutting

programme is already yielding fruit. So is the airline set fair for partial privatisation by next March? Internally, much progress has been made. The settle-ment with Air France pilots will take a few years to erode their pay, but at least the strike was beaten. Among other concessions gained is one that will allow lower cost franchisees to operate some routes. But with its peers also taking the knife to costs, Air France is having to run

As for the airline market, that is looking unkind. Each downward revision of economic growth forecasts spells more trouble, first for prices, ultimately for passenger numbers. Hence the substantial discounts that several airline stocks trade on. Add in a political discount for Air France - only 20 per cent is being offered to outside investors - and the initial valuation should not be ambitious. With British Airways and Lufthansa only valued at \$7bn-\$8bn, this sale has more symbolic than financial importance for the French privatisation programme.

BMW/Rover

Is this Rover's nadir? The resignation of Walter Hasselkus as the BMW subsidlary's chairman is an attempt to signal an end to Rover's market share declines and heavy losses. The trouble is that, notwithstanding the new labour agreement that saves £150m a year from 2000, the good times are some way off yet for the embattled car company. True, the target of profitability by 2000 still stands. This would certainly have been an easy time to abandon it, using Mr Hasselkus as the excuse.

But the time-lag before Rover's new products replace its tired and over-priced saloons remains uncomfortably long. Before the new Mini and other models arrive in 2001 and thereafter, it is hard to see Rover's profitability improving significantly. If the first of the new products to be jointly developed with BMW, the R75 executive car, fails to sell next year, the German company should question whether the rest will be worth the bother.

HIGHER-THAN-EXPECTED INCREASE PROMPTS RISE IN SHARES AND CURRENCY RALLY

Australian economy defies Asian turmoil to grow 5%

Australia's economy grew 5 per cent in the year to September, defying the Asian crisis to make it one of the fastest-growing economies in the

Yesterday's growth figure, which was significantly higher than the markets had expected, was released in the wake of a quarter-point cut in

The announcements coincided with the introduction of the government's tax reform programme, and spurred equities 1 per cent higher, drove 10-year band yields below 5 per cent and prompted a rally in the

Australian dollar. This is one of those days when it's all come together for Australians," said Peter Costello, the gov-

ernment's treasurer. Gross domestic product growth for the quarter to September increased by 1 per cent in seasonally adjusted terms compared with the previous

While this was in line with expectations, upward revisions to growth in the preceding three quarters resulted in surprisingly strong growth of 5 per cent over the year. This compares with a revised 4.3 per cent annual GDP growth rate in the

second quarter. Mr Costello said the economy might not maintain this pace. "Clearly, 1999 is going to be a hard year, but I think that we can say the Australian economy has weathered the first year of the [Asian economic] crisis exceptionally well."

The quarter-point cut in the Reserve Bank of Australia's overnight cash rate target, to 4.75 per cent, also "shows the bank is concerned about the outlook for the Australian economy next year", according to Grant Fitzner, an HSBC

Sydney-based economist. Ian MacFarlane, the bank's governor, said the board decided to reduce rates to what is the lowest level since the last easing cycle in 1993 after taking account of the outlook

for both economic growth and inflation. Some decline in growth is unavoidable, given the international

circumstances, he said.

Australian inflation remains benign. The new GDP chain-price index, published for the first time with yesterday's growth figures in place of the traditional deflator, showed inflation running at a yearon-year rate of 0.8 per cent in the third quarter.

Also yesterday, Mr Costello introduced the government's promise tax reforms through a package of 16 bills in parliament that would abolish existing wholesale sales taxes and introduce a 10 per cent sales tax to take effect from July 1 2000.

"We've got the lowest interest rates in 30 years and we have just introduced a tax reform package that is going to build an even stronger Australian economy." said John Howard, the prime minister.

Editorial comment, Page 15 SFE and Dow Jones, Page 17

France accused of delays over Nazi art theft compensation

A bitter dispute erupted at the international conference on Holocaust assets yesterday as Jewish groups accused France of dragging its heels on compensation for artistic masterpieces stolen from the victims of the Naxis.

The World Jewish Congress named two masterpieces in Paris -Picasso's "Head of a Woman", currently hanging in the Pompidou Centre, and Cezanne's "Bathers", in the Musee D'Orsay - as looted from Jew-

The Congress - which spearheaded the successful campaign against Swiss banks this year demanded that the French government release the art works along with more than 2,000 disputed

It said the French should follow the example of Austria, which anctioned its disputed Holocaust-era art

be to pay compensation to survivors deal with disputed art. In particular, without auctioning the art.

However, French officials angrily rejected the Jewish group's suggestions, saying it would be illegal under French law for the government to auction works of art that it did not own. France said it had been holding the works of art as a temporary custodian since the war.

The officials insisted that the French government had aiready published the list of the 2,000 works of art and was committed to waiting for the recommendations of the Matteoli commission on Nazi plundering from French Jews.

They said they had recently increased their funding of the commission - made up of politicians, academics and Jewish groups - to ensure it will complete its work by the end of next year.

secretary of state, who has led the many today were involved during US government's efforts over the issue of Holocaust assets, said the vors. A compromise solution would binding" principles to help countries Observer, Page 15

Mr Eizenstat praised the Austrian government for its swift action on

A list of 2,000 art dealers suspected by wartime US intelligence of trafficking looted art will be published by Jewish groups to help trace disputed artworks.

But the US government said it was not involved in the publication of the list and could not vouch for the accuracy of the names.

Jewish groups were also angry that the Washington conference was not due to discuss slave labour in concentration camps. A range of industrial groups are being sued in class action lawsuits in the US over use of slave labour in Europe.

The UK's Holocaust Education Trust plans to publish a report on the issue today, saying that "at least Stuart Eizenstat, the US under- half of the top 20 companies in Gerthe war in the exploitation of slave

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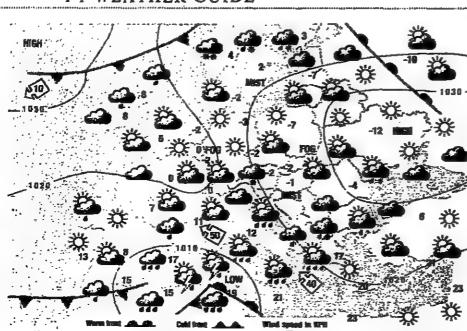
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Denmark, southeast Norway and southern Sweden will stay dry but will be very cold with overnight frost and freezing fog clearing slowly. The rest of Sweden and showers and low temperatures. Most of eastern, central and northwest Europe will be settled but will temperatures. The Mediterra although the north of the liberian Five-day forecast

Most of central, northern and eastem Europe will continue very cold and wintry with scattered snow showers and widespread severe Irosts. The Iberian Peninsula will but the central and eastern Mediterranean will be unsettle with heavy showers.



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POWER IS NOTHING 3000

Problem.

I'm in Martinique. I've been bitten

by a large insect and my arm is swelling badly - what do I do? It's 11pm and I've just arrived at my hotel in Lima. It seems they lumen't received my reservation. My Spanish is limited, the hotel is full and I have a heavy business I'm in a small village outside Oporto, I need a hire car NOW and I don't speak Portuguese! I've been arrested in Toulouse. I don't really know what for but I believe they think I stole something from a restaurant. The authorities are going to put me in prison. Can you help? I'm in Riyadh and my Saudi vies mas in my luggage - which has been lost in transit. What can I do? I need to get an urgent message to my business partner but his line is ngaged and my flight is boarding.

Can you help? My husband has passed out in our botel room and we're due to fly home in two hours - he needs medical help What can I do? I'm Malaysian and I'm due to Impel

to Tenzania in a couple of weeks. My friend has told me I don't need a visa, is he rìght? Also, what's the best currency to take? n switched to Kuwait City. I need to

change my flights, get some local ciothing for a Muslim country and get a message to my family.

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COMPANIES & MARKETS

THURSDAY DECEMBER 3 1998

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Mortal comment, Page 15

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CHICAGO

Global chill finally arrives in Africa



Much of sub-Saharan Africa has been shielded from the worst of the global downtum indeed it has attracted buyers for a

large part of this year. Ghana's stock exchange, for example more than doubled in US dollar terms in March after a visit by President Bill Clinton

(above) the same month. However, signs of a chill wind are starting to be feit by African stock markets. Emerging Market Focus, Page 38 Texaco seeks to consolidate rank

After the Excon-Mobil tie-up, Texaco says it is in no humy to find a partner, but that it is actively eyeing links and buys to reinforce itself as the third-biggest US oil group. Page 19

Arcadia prompts Christmas worries Shares in Arcadia, the UK fashion retailer that includes Burton menswear, Dorothy Perkins and Principles, fell 26 per cent on a profits warning. A warning from Homby, the toy maker, further increased concerns that the sector is facing a gloomy Christmas. Page 22; Lex, Page 22

Indonesian groups start buying debt Indonesian groups are starting to buy back their debt, offering hope that the country's \$80bn private debt overhang will diminish. Asia Pulp & Paper, of the Sinar Mas group, and Astra International, the car group, have made moves to buy back bonds. Capital Markets, Page 28

Australian cotton bucks global trend The Australian cotton sector is booming, in contrast to spiralling global prices. A week Australian dollar, and the fact that local cotton is priced against US cotton futures, has helped. boost Australia's cotton growers. Commodities, Page 28; Editorial Comment, Page 15

Euro may further polarise Sweden.



Althus Indus

The onset of the euro may expose the grow-ing gulf between Sweden's largest exporters - such as Ericason, the telecommunications : giant, and the ameliest manufacturers. There are widely differing attitudes to the currency," from those actively pre-

paring for it and those devoting little or no time to it. Business and the euro, Page 25

COMPANIES IN THIS ISSUE 19 Komities

L'Ordel

MAG

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Synthélal

Telecom to

22 Thomson-CSF

34 Toklo Marine

21 Total

CROSSWORD, Page 28

Texas Pacific Group

19 Warburg Offion Read

Bill Clinton, US president, said he was "very concerned" about Bosing's announcement. "I think it is clearly a result of the global financial crisis and in particular the economic problems in Asia," he added. "I can't tell you how important it is from my point of view for the United States to

Asian economic crisis clouding company's future

growth in Asia." Other aerospace companies

British Aerospace shares slipped in London and the gloom spread to other general to suffer a drop in demand. The news of production cuts, swingeing job losses and fore-

difficulties Harry Stonecipher, chief

pictore."

pressure on the board," said Most attention is expected to years... I hope it's three".

since been hit by fading Asian Lax. Page 16

mercial aircraft in 2000, more than 20 per cent fewer than next year's planned total. Meanwhile, operating profit margins would hover below 3 per cent, compared with 10 per cent and more earlier this

Of the 48,000 job cuts - 20 per cent of the group's current total, and 20,000 more than announced in July - 80 to 90 per cent would be made in the civil aircraft division, Mr Condit said. Most would affect plants around its Seattle base,

yesterday launched an inves for relations biltr to overrome lukewarm shareholder support

By Robert Corzine

for its proposed takeover of PetroFina of Belgium.

Doubts have arisen about the 37 per cent premium Total is paying for PetroFina and the extent of possible cost savings and synergies between the two

In Paris yesterday Total's shares slipped FFr28, or 4.5 per cent, in a falling market to close at FFr590, extending a 12 per cent loss on Tuesday when

the deal was announced. Thierry Desmarest, Total's chairman, who will lead the combined Total Fina group, acknowledged that the premium was "relatively high". He also accepted that "at first glance, it may look like a step change in Total's strategy".

Mr Desmarest and François Cornélus of PetroFina, set to become vice-chairman, met leading shareholders in London yesterday afternoon before flying to New York to raily US

investor support.

Mr Desnuarest admitted that
"portfolio menagers need more time to understand the deal", which would create the third biggest European oil company and sixth largest in the world.

In recent years, Total has concentrated on investments in more lucrative unstream oil and gas exploration and production, while maintaining a cautious approach to the capital intensive and generally less attractive relining and marketing business. That strategy has been warmly received by

Yesterday Mr Desmarest insisted Total intended to retain that strategy and apply it over the enlarged group, although there would be a "period of adjustment" when assets would diverge substantially from the current Total

It should take until 2005, for example, to "re-balance" upstream oil and gas production with refining capacity, which initially will be 30 per cent higher than oil and gas outout.

Lex, Page 18 Rocky ride for Desmarest, Page 18

Boeing falls 17% after profits alert

Boeing lost 17 per cent of its stock market value yesterday morning after the world's biggest aerospace group stung investors with sharply reduced profit predictions and a warning that Asia's economic crisis could last five years.

to restore the conditions of \$2bn the company forecast this sammer reawakened speculation that more management changes could be on the way. "Shareholders are going to put

in the US and Europe saw shares fall as the news reverberated through world markets. Northrop Grumman, a one analyst. leading Booing components maker, saw its shares drop fall on the role of Phil Condit. more than 6 per cent.

be actively involved in trying 25 per cent lower than the

group chairman, who earlier this year sacked Ron Woodard - the head of the commercial aircraft division which is the source of the company's

operating officer, said the future was still clouded by the Asian economic crisis. "There

is really no market growth." he added. "It is not a pretty Although everyone he and

Mr Condit had met on recent visits to the region said the situation would persist for one or two years, "we think this thing will go on for two to five

That could prolong the agony for a company which has been struggling for more than a year to recover from last autumn's production crisis - which crippled efforts to increase output - and has

which employ 11,000.

Worst may not be over, Page 15

ITALIAN MOTORCYCLE GROUP APPOINTS CREDIT SUISSE FIRST BOSTON TO EXPLORE PROSPECTS FOR AN IPO

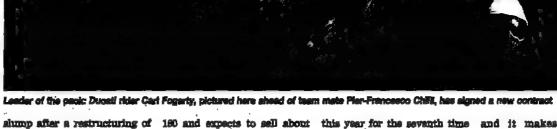
Ducati in plan to list early next year

Ducati, the italian motorcycle company, is planning a stock market listing early next year as it continues a turnaround in its fortunes after being rescued from near collapse in 1996.

Ducati, whose products rival those of Harley Davidson for buyers of top-of-the-range motorcycles and are a feature on the world's racing circuits. has appointed Credit Suisse First Boston to explore prospects for an initial public offering. Although there is no firm timetable and any issue will depend on stock market conditions, executives are keen to float Ducati in the first half of

Based in Bologna, the company was bought in 1998 by Texas Pacific Group, a US privata squity firm, in a L520bn (\$310m) transaction.

unable to pay either its employees or its suppliers, and the reliability of its motor-



Federico Minoli, Ducati president and chief executive, and yesterday the group was "the most profitable motorcycle At that time, Ducati was company in the world", of the market for expansive although he declined to give

Ducati was producing only was also being ones- 20 bikes a day when Taxas retain its pole position in which it has a 72 per cent vate equity arm owns 25 per tioned. However, revenues Pacific acquired control, but it motorbike racing. It won the stake. "The company has a cent of Ducati, and private

the company's marketing and 28,000 motorcycles this year. Ducati had revenues in 1997 of Liston. Mr Minoli said sales in the first nine months of this

veer rose 28 per cent over the same period in 1997. Its share motorcycles also rose last year from 5 per cent to 7 per cent.

Ducati has managed to

in nine years, and Briton Carl Fogarty, its leading rider, recently signed a new contract to stay with the company for

Abel Halpern, managing director at Texas Pacific in London, said the private equity firm was "looking at all its options" for Ducati, in

have recovered from a long has raised delly production to world superbike championship very strong growth trajectory investors own the remainder.

between the discount stores.

which had improved their

clothing offerings, and the

more up-market department

stores, which were offering

the company might be worth. but Texas Pacific typically maks returns of more than 40 per cent a year on its invest-

with our investment."

Deutsche Bank's Italian pri-

He declined to speculate on

what Ducati's IPO or on what

branded goods at competitive

prices. "At this point I don't

think we have seen all the

downside in terms of fourth

quarter earnings risk," Mr

US store chain in winter profits warning

18

Hopes of a prosperous Christmas for US retailers took a battering yesterday when Sears Roebuck, the nation's econd biggest store group, delivered a profit warning for the final quarter.

The company said domestic revenues had fallen 4.5 per cent to \$2.51bn last month. period that included the start of the busy shopping season between Thanksgiving and Christmas Day.

Underlying earnings per share, it said, would increase "at a low single-digit percentage rate" for the full year from last year's \$3.27. The company had previously been guiding analysts towards a mid-single

The announcement con-

media reports of a busy open- said the sales downturn at Sears was being squeezed ing to the Christmas seeson, with shoppers crowding into stores over the holiday weekand that followed Thankagiving Day last Thursday.

Nearly all retail stocks fell those of big department store chains particularly hard hit. With consumer confidence still high in the US in soite of

retailers have been looking forward to record-breaking sales this Christmas, capping an unusually profitable year. The National Retail Federation, an industry body, has predicted that sales of general merchandise, clothing, toys and home furnishings will

increase by 6 per cent in the fourth quarter, a little less than in earlier quarters but matching the same period

Sears did not necessarily indicate a wider decline, because Sears was suffering problems specific to the department store sector.

Thomas Tashjian, an analysi at NationsBanc Montgomery Securities, said recent stock market declines had shaken confidence among post-war baby boomers, causing them to and prompting a switch in shopping from department

stores to discount stores. "Department stores are also ealing with an issue of being incredibly predictable," he added. "They are boring - they all have the same vendors, and often even the same fixtures in are saying, "This stuff is

Richard Church, an analyst trasted sharply with recent US least year. Wall Street analysts at Salomon Smith Barney, said

Invitation to tender for the Dutch government telephony project OT2000 ('OverheidsTelefonie 2000') has officially begun

This week the Dutch government has set in motion an invitation to tender process for the telephony services for its ministries, as well as for provinces and a large number of other government organisations. The tender will represent a contract value of around NLG 330 million. The contract period will cover a period of three years, with an option to extend this by a further three years.

On 30 November of this year, the official announcement of the invitation to tender was submitted for publication to the Official Journal of the European Communities. Accordingly, the Dutch ministry of the Interior and Kingdom Relations is asking interested telecommunications companies to make known their interest in submitting a tender for this

The order is divided into three lots: fixed, mobile, and international telephony. Each of these lots shall be awarded to two suppliers. The invitation to tender process is being conducted by Programmabureau OverheidsNetwerk 21 (ON21 Programme-office).

Interested companies are invited to register their interest in being selected. This can be done by requesting a so-called selection document from Programmabureau ON21, on the basis of which key company data will have to be provided. This key data must be submitted to Programmabureau ON21 by Monday 11 January 1999 at the latest. The companies selected will be entitled to submit a tender. It is expected that the tenders will be assessed during the summer of 1999.

Further information may be obtained from:

Programmabureau ON21 P. O. Box 20011 2500 EA The Hague Nothuriands

Tet: (+31) (0) 70 - 346 22 88 (+31) (0) 70 - 312 36 12 E-maii rf@on21.ni http://www.on21.nk Internet

SFE and Dow Jones to set up Asia-Pacific index

Sydney seeks to attract European and US investors

By Gwen Robinson in Sydney

The Sydney Futures Exchange and Dow Jones Indexes have eamed up to create a set of SFE as the basis for exchangetraded derivative products. The agreement, the first of

region, highlights growing rivalry between the region's capital markets. It is the latest aggressive move by SFE to attract linked to specific Asian equity regional as well as European

diversification before the euro s introduced next month. The indices, to be known as the Asia Pacific Extra Liquid Series, would be region, coun-

They would provide the basis for exchange-traded, index-linked products including futures, options, funds and warrants, said David Moran. president of DJI in Australia. Les Hosking, SFE chief exec-

The composition of the indiits kind in the Asia-Pacific ces will be finalised after consulfation with fund managers in Europe, the US and Asia as well as Australia.

country, region and economicsector indices, and ultimately fixed-income and specialised

ever country, we would obviously look for the most liquid markets," said Mr Hosking. But the index designs would screening methodology not utilised by the broad-based benchmark indices."

sifying regional competition, illustrated by the recent dispute between Hong Kong Futures Exchange and Singa pore International Monetary Rxchange (Simex) over Sings pore's launch last month of a Hong Kong equity index futures contract based

Simex also plans to list a futures contract based on the Thai stock exchange index, and has announced a move to full electronic trading in its campaign to be Asia's financial hub.

and DJI would strengthen Australia as a-regional financial centre, said Mr Hosking. The APELS indices would generate unique derivatives products on the only regional futures exchange trading 24 hours a

The move comes amid inten-

Monusi reports club Seachmerk Govt bonds Bond Autures and options Bond prices and yeakin Commodities prices Dividends announced EMS CURRENCY FAMILIE Euro pricas Euroband arices

MARKET STATISTICS

32,33 Emerging Wasket bonds 26 26 FTSE Actuaries shart indices 34 Foreign exchange GERS DOCKE London share service Managed funds service Money merices New inti band insues Recent issues, UK Short-term bit rains Short-term bit rains Shock markets bit it glancy

try and sector-specific.

utive, said the first two or three indices in the series would be launched in the second quarter next year to coincide with SFE's move to indices exclusively licensed to around-the-clock screen trading on its new Sycom IV · platform.

The first set is likely to be markets, followed by other and US investors seeking asset

> "Whether it's India or whatbe much more sectoral and use

on an index built by Morgan Stanley Capital International.

The agreement between SFE

Aerospatiale near to deal on Sextant

By Alexander Nicoti and David Owen in Parls

Aerospatiale of France is to give up all or part of its interest in the Sextant avionics company jointly owned with Thomson-CSF under an agreement, expected to be reached in the next two weeks, which will smooth the way to the aircraft makabout FFr30bn.

er's privatisation next year. The aircraft company is to be merged with the Matra defence interests of the private sector Lagardère group under a plan announced in

within the companies, the combined value of the new group will be about FFr45bn (\$8bn), which would put a valuation of some FF19bn on the 20 per cent stake to be floated on the stock market in March or April. Matra is thought to be worth about FFr15bn and Aerospatiale

Yves Michot, Aerospatiale chairman, has been touring the US this week to explain the restructuring plans to potential investors. However, the transaction cannot go ahead unless agreements

joint ventures or other owned 70 per cent by Thom- pletely. In return, Thomarrangements.

The most important of these will be with Thomson-CSF, the defence electronics company. It is close to reaching an agreement with Aerospatiale settling arrangements for the two groups' interests in avionics, missiles and satellites.

Thomson-CSF objects to Aerospatiale's intention to exercise an option to increase its stake in Sextant Avionique, which makes electronics equipment for

son-CSF and 30 per cent by Aerospatiale.

Denis Ranque, Thomson chairman, believes it is logical for Thomson-CSF as an electronics company to control Sextant.

He is understood to be condisadvantaged in winning orders from other aircraft for a certain period. makers if it were closely allied with Aerospatiale, a a request to inject its mispartner in the Airbus consor-

Aerospatiale is expected to

According to estimates are finalised with other com- civil and military aircraft, to give up its option and may son-CSF is likely to renounce its right to go to court over Aerospatiale's return to the satellites business.

> When Thomson was restructured, it acquired Aerospatiale's satellite business. Aerospatiale undertook not cerned that Sextant could be to take a controlling stake in another entity in that sector

> > Thomson-CSF has rejected siles business into those of Aerospatiale and Matra, but will undertake to buy mis-

sile equipment from Aeropanies with which they have 50 per cent - it is currently sell out of Sextant comown business in missile

On missiles, the addition of Aerospatiale's interests to Matra's creates a potential imbalance in the 50:50 joint venture with British Aerospace, Matra BAe Dynamics. An agreement with BAe

substituting the new Aerospatiale for Matra in the Matra BAe Dynamics venture is also necessary, as well as with General Electric Company of the UK, which also has a joint venture, Matra Marconi Space.

PHARMACEUTICALS FRESH CONSOLIDATION

French groups set to merge

By David Owen in Paris and David Pilling in London

Sanoli and Synthelabo will today announce the merger of their pharmaceuticals activities in the second a third, probably US. tie-up this week involving group. a leading French drugs

group. Subject to unlikely eleventh-hour hitches, the two companies - which are the second and third biggest French pharmaceuticals groups - are expected to reveal that they are moving their pharmaceuticals assets into Sanofi-Synthélabo, a new holding

Elf Aquitaine, the oil group which is Sanofi's gic momentum. majority shareholder, is new entity and L'Oréal, the cosmetics group which plays the same role at Synthelabo, with some 19

create the world's 19th biggest drugs group in turnover terms, is understood to have secured board approval last

The transaction will not include Sanofi's beauty business, which includes the Yves Saint Laurent brand. This is understood to have been slated for separate dis-

Based on 1997 figures, the combined group would have annual sales of more than FFr30bn (\$5.3bn).

The market capitalisation of the two companies is currently more than Ecu35bn. In Paris yesterday, Sanoft shares fell FFr70, or 7 per cent, to FFr930. Those of Synthélabo slipped FF131, or

2.5 per cent, to FFT1,199. The long-rumoured tie-up is widely seen as an effort to achieve critical mass in a fast-consolidating global industry. Indeed the new towards achieving this in Europe, where it will be number six.

Big questions will remain

US market, bowever, and some observers might see today's move as, in essence an interim measure prior to an eventual tie-up with

Another uncertainty is whether Elf will indicate a long-term intention to retain its entire stake in the new The oil company first indi-

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cated it was ready to sell part of its Sanofi bolding as long ago as December 1996. A shareholders' agreement is, however, understood to have been signed by the two parents in an effort to sustain the new entity's strate-

Jean-François Dehecq of expected to end up with Sanofi is expected to emerge 34-35 per cent of the as the number one in the as the number one in the new grouping, with Herve Guérin, his Synthélabo counterpart, likely to be number

The deal, which should Morgan Stanley and Synthelabo by Lehman Brothers. None of the parties directly involved in the transaction would comment yester-

• France's Rhone-Poulence and Germany's Hoechst agreed on Tuesday to merge their pharmaceuticals and agro-chemicals businesses to create Aventis, the world's biggest life sciences com-pany, writes David Owen.

Rhone-Poulenc shares continued to fail in Paris yesterday as investors reacted coolly to news of the deal. The shares closed down FF17.30, or 2.8 per cent, at FFr258.10, after the more than FFr20 decline on a weak French market the pre-

vious day. However the market's poor reception of the deal yesterday prompted Rothschild. one of the company's advisers on the merger with Hoschst to comment: "The company will go a long way market has not realised yet that Aventis has the potential to become one of the most powerful life sciences companies in the world.

Air France outlines strategy

By David Owen in Parls

Air France, the French national carrier, is likely to decide next year with which of its two US partners - Continental Airlines and Delta Air Lines - it will join forces in an attempt to build a new

Jean-Cyril Spinetta, Air France chairman, said yesterday the group's ambition was to build the second or third global alliance with one big American

"The major alliance will start off with a large European operator and a large American operator; that is the first step we are seeking," he said.

The French carrier, which vatisation early next year, ment in June.

has code-sharing agreements with more than 20 airlines world-wide, but is not yet in any global partnership, such as the Star Alliance or the Oneworld Alliance.

The Star Alliance is made up of Germany's Lufthansa, United Airlines of the US, Air Canada, Thai Airways and Varig of Brazil. Oneworld includes British Airways, American Airlines, Cathay Pacific, Canadian Airlines and Australia's Qantas.

Yesterday's developments came as the French company reported a steep fall in firsthalf income. The results were beavily influenced by the cost of a damaging 10day pilots' strike, which was called off just before the is earmarked for partial pri- World Cup soccer tourna-

the six months to the end of September fell from FFr1.75bn to FFr1.34bn (\$238m) on turnover that was virtually flat at In spite of the downturn,

Mr Spinetta indicated that he felt the right con-ditions for the planned share placement were now in He recently suggested the

operation would probably come in the first quarter of He said that four mer chant banks - Crédit Agri-

Stanley for the state, and Lazard and Société Générale for Air France - were working on a valuation. Under plans outlined in

February, the Socialist-led

cole-Indosuez and Morgan

pledging to remain the majority investor. The company estimated the strike's impact on profits at FFr1.3bn. By contrast, the

dispose of up to 47 per cent

of the carrier's capital, while

Net attributable profits for French government would

figures were helped by a FFr188m exceptional gain on the sale of 34 per cent of Amadeus France, the French marketing company for Amadeus, the global travel distribution and seat reservation system.

The group said the growth of passenger traffic in the first half reached 5.1 per cent and 8 per cent in the second quarter. Its load factor rose by 0.4 percentage points to the "exceptional" level of

departure.



Jean-Cyril Spinetts: planning to build a global alliance

OTE chief quits after clash with government

The chief executive of OTE. Greece's partly privatised telecommunications operator and the country largest company, resigned yesterday after clashing with the government over corporate governance and the timetable for lifting its monopoly of public voice telephony.

George Chryssoulouris was appointed in January by Costas Simitis, the Socialist prime minister, with a brief to modernise the company. But he has been in dispute

transport minister and several board members over the day-to-day running of the company.

"I tried to run OTE like a private sector company, but the government wanted to interfere. If they want the company to operate like a public sector enterprise, there's no place for me." Mr Chryssoulouris told the FT.

His resignation underlines the government's problems in modernising big state enterprises, where managers traditionally are selected on

Issued by Deutsche Finance (Netherlands) B.V. exchangeable into shares of Daimler-Benz AG, guarantaed by Deutsche Bank AG (ISIN US 251546AB31)

After the start of the official quotation of the DaimlerChrysler AG shares (ISIN DE 000 710 000 00 on the Frankfurt Stock

Exchange, Eurex Deutschland has decided that with effect

from November 17, 1998 the underlying of the options on Daimler-Benz AG shares traded on Eurex Deutschland has

been substituted by Daimler-Chrysler AG shares(the

"Shares") at a ratio of 1:1.005. In this connection the

Exchange Right of the Bondholders, the Exchange Price

Consequently, a Bondholder will receive, upon exercise of

the Exchange Right, 0.26 additional Shares per Bond with a

principal amount of U.S. Dollar 10,000, or a total of 52.01

Shares (or the equivalent cash amount). The Exchange Price (previously DM 125.95 per share) is now DM 125.32

Dautsche Finance (Netherlands) B.V.

MERCURY

EUROPEAN

PRIVATISATION

TRUST PLC

\$75,000,000

Floating Rate Notes due 2004

For the three months from 30t

November 1998 to 25th Februar

1999 inclusive, the Notes wil

carry an unterest rate of 7.130635

per annum. The interest amount payable p

£100,000 will be £1,719.17 or 26th February 1999.

ACENT BANK

BARCLAYS

TIS \$480,000,000

AXAJIAP Subordinated Perpetual Step-up Notes

For the period from December 3, 1998 to March 3, 1990 the Notes will sarry as interest rate of \$25,0000 per amoun with an otherest amount of US \$146.52 per US \$10,000

usterest amount of UN\$14532 per US\$10,000 Note, US\$1,489.18 per US\$100,000 Note, and of US\$14,69450 per US\$100,000 Note. The referant interest payment date will be blacch 3, 1969.

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BANQUE PARIBAS

FRF 3.800,000,000

AXA-IIAP

Suburdinated Perpetual Step-up Notes

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BANQUE PARINAS

and the subscription ratio have been adjusted.

Amsterdam

November 1998

MORTGAGE FUNDING CORPORATION NO.6 PLC

£134.599,600 Chas Al Sensor Mongage Backe logung Rate Notes due November

£5,500,000
Class B Morroage Backed Floating
Rate Moters due November 2035

£200,000,000

Floating Rate Notes due 2000

For the interest partied 30th November 1998 to 26th February, 1999 the Notes will carry a Rate of Interest of 7,03063 per

terr, per amount with success amounts of £1695; per £10,000 principal and £1,695.06 per £100,000 principal, payable on £6th February, 1999.

Laterion the Laterahouse Stock Englange

Open for

business.

OTE's statutes make it independent of the government, but the Socialists refuse to allow the privatisation of more than 49 per cent of the company. The government holds 55 per cent. Mr Chryssoulouris's depar-

ture also comes three weeks after OTE became the first Greek company to be listed on the New York stock exchange.

US institutional investors bought most of OTE's \$1.1bn secondary offering last country's regulatory frame-

25 per cent of the company. Several institutions yesterday voiced concern about OTE's prospects following Mr Chryssoulouris's sudden

He also clashed with the transport ministry over a plan to open up public voice telephony to competition on January 1 2000, one year earlier than planned. Greece is being pressed by the Euroan Union to speed liberalisation, but Mr Chryssoulouris argued that the We have to liberalise the

telecoms sector as quickly as we can, but you can't do it without having an effective referee. There's some work to be done before that becomes the case," he said. During his 10-month ten-

ure, OTE speeded up its digitalisation programme and launched Greece's third cellular network.

 Yesterday's planned launch of share-trading in Panafon, the Greek mobile

with Tassos Mantells, the political criteria, analysts month and now hold about work should first be telephone operator, was reformed to ensure fair com- postponed because of settlement and custody problems over shares bought by US institutional investors, Athens bourse officials

Warburg Dillon Read, the lead underwriter for last month's Dr196bn (\$694m) public offering of Panafon shares, said trading would start on December 7.

It said the delay was result of strong demand from overseas institutions investing in Greece for the

about the strength of Sanofi-

Total chairman may need to pour oil on troubled waters

Desmarest could face rocky response to merger from financiers, writes Robert Corzine

chairman, was his usual enthusiastic self when he arrived in London yesterday to promote his takeover of PetroFins of Belgium. But Total's road show to sell the deal to key world financial centres looks set to be a rocky one, with shareholders uncertain how to interpret

this week's events. The uncharitable view is that Mr Desmarest may be in danger of scoring an own gnal in taking over Petro-Fins. After all, investors and analysts alike on both sides of the Atlantic Ocean had embraced the company in its

current guise. Although Total is a "minimajor" when compared with the giants of the international integrated oil sector. in recent years it has displayed a commercial savviness and nimbleness which

pleased investors. The fact that it was one of the few European oil companies to attract a sizeable US following was evidence that its strategy - to take on the biggest companies in the industry in competing for large, low cost reserves while carefully controlling its involvement in capital intensive but generally low margin areas such as refin-

Thierry Desmarest, Total ing and bulk petrochemicals with the deal summed up - had struck a resonance the sceptical market reacamong a wide range of inves-

> The sceptical market reaction to the deal suggests there is a real worry that the PetroFina deal contradicts the stated strategy by taking Total much more deeply into

Mr Desmarest and his colleagues were clearly surprised at the degree of

scepticism that greeted the deal refining and marketing,

while adding a bulk petro-

chemicals dimension to the

Although Mr Desmarest denies there has been a fundamental change in direction, it is clear that the combined group will have a different composition that may unsettle some investors, at least in the short term: "They thought they were turns out to be an orange."

is how one person familiar

tion. "But investors have to evaluate the orange relative to the other oranges out there."

Mr Desmarest yesterday insisted that the strategy remains the same even if the business blend is different. Although the combined

downstream exposure, especially in north-west Europe, it will be of a higher quality, he said: "Besides, having a greater weight in the downstream in a period of low prices is not bad." Mr Desmarest and Fran-

cois Cornélis, the head of PetroFina, insist there is a "huge potential for synergies and optimisation" of the group's European refining and marketing activities perhaps the centrepiece of the merger - while acknowlquestions" about the future of the US downstream

Mr Desmarest said the rapid growth of Total's oil and gas production profile will continue, even though more capital may have to be directed to some parts of the buying an apple and it now downstream businesses to make them more competi-

He expected that the integration of upstream assets would be "very easy", as there was little overlap. In addition combined production growth would remain low cost, even though a greater proportion will come from industrialised regions such as the North Sea. rather than the developing group will have a greater countries with which Total is usually associated.

As for the controversial petrochemicals element, Mr Desmarest noted that they are "very competitive assets" that will make up only a third of the combined group's overall chemical mix, with specialist products accounting for two-thirds of the total

Mr Desmarest and his colleagues were clearly surprised at the degree of sceoticism that greeted the deal, accustomed as they are to a edging that there are "open high degree of investor trust and confidence in their abilities and strategy.

The key issue for investors may lie less in the technical complexities of the integra tion than in whether they believe Mr Desmarest and his expanded management team can "rebalance" Total Fina in the same way they have transformed Total over the past five years.



ACCEPTANCE NV. FRF 500 000 090 REVERSE FLOATING RATE NOTES DUE SEPTEMBER 2003 ISIN CODE: XSIM4191738 or the period December 01, 1998 to March 01, 1999 the new rate as been fixed at 10,40625% P.A. Next payment date: March 01, 1999

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SOCIETE GENERALE.

Deutsche Bank in Belgian buy In exchange for the Com- and Germany, the balance

By Samer Iskandar in Paris, Tony Barber in Frankfurt and Clay Harris in London

Deutsche Bank said yesterday it had agreed to pay DM1bn (\$596m) for Crédit Lyonnais Belgium. With the disposal, the French bank has achieved more than half the FFr680bn (\$121bn) asset sale programme imposed on it by the European Commission in total of FFr20bn in assets. exchange for approving an FFT150bn of state aid.

For Deutsche, the deal shows that its proposed acquisition of Bankers Trust, the eighth biggest US hank, has not diminished its appetite for expansion in Europe. Crédit Lyonnais España - FFr320bn of assets to sell. It is already the largest for and Caja Madrid, which with just under a year before eign bank in Italy and has would buy Banco Jover.

retail operations in Spain. It mission's clearance for the intends to merge its existing state subsidy, the French Belgian business with that of Crédit Lyonnais Belgium. The Beigian sale was one

The others are a 51 per cent stake in Germany's BfG Bank, accounting for FFr200bn in assets, and two In the case of BfG, several sale likely early next year.

Duero - which would buy

government pledged to reduce its stake in Crédit Lyonnais from 90 per cent to of the three main disposals less than 10 per cent by required by the Commission. October 1999. Between 1995 and 1998, Crédit Lyonnais had sold some FFr155bn of assets,

The second secon

including subsidiaries in the Spanish operations, with a Netherlands, Ireland and Italy. Assets in Scandinavia, Greece and Italy were sold in estimated FFr100bn suitors are thought to have the months after the agreeexpressed interest, with a ment with the Commission. These were estimated at In Spain, the bank is con-"tens of billions of francs" ducting exclusive talks with by analysts. two savings banks. Caja

The Belgian sale leaves the French bank with some the deadline. After Spain Charger, Page 15

will be FFr100bn, which should include activities in Australia and Latin America, as well as a few remaining assets in Europe. The Commission is also

requiring Crédit Lyonnais to dispose of 20 per cent of its domestic branch network. The bank's essential international centres - including

New York, Tokyo, Singapore, Hong Kong, Luxembourg, London and Switzerland - remain largely intact. Deutsche's main German rival, Dresdner Bank, had identified Belgium as a target for expansion, and banking sources said it had looked at Crédit Lyonnais Belgium as a possible target.

10:3 Pirelli in Japans too-

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DAY DECLARE REPORT

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NEWS DIGEST

MANUFACTURING

ITT Industries to cut up to 1,200 jobs in revamp

TT industries plans to streamline its menufacturing operations, cutting up to 1,200 jobs and taking a one-time charge of up \$400m to pay for the restructuring. The moves come after the industrial company sold its auto electrical systems unit to France's Valeo for \$1.7bn and its brake and chassis division to Germany's Continental for \$1.9bn in September.

The group, which employs about 35,000 worldwide, said the charge would be between \$370m and \$400m and would be taken in the fourth quarter. Before yesterday's announcement, analysts had predicted ITT would earn 55 cents a share in the quarter, down from \$72m, or 60 cents, a year earlier.

"We anticipate a major restructuring across all of our units, particularly in our pumps business and our connector business," said Travis Engen, chairman.

ITT is one of the world's biggest makers of pumps and fluid-control systems. Reuters, New York

INVESTMENT BANKING

WDR shakes up management

Warburg Dillon Read, the investment banking subsidiary of UBS, has shaken up the management structure of its markets operations and named a replacement for one of the executives who lost his job because of the Swiss bank's SFr984m (\$707m) after-tax loss on its exposure to the US hedge fund Long-Term Capital Management.

John Costas becomes head of rates in the place of Andrew Siciliano. He will be based in London, moving from Stamford, Connecticut, Mr Costas and his equit counterpart, Colin Buchan, will report to Markus Granziol, head of a new combined equities and rates division. A new treasury products division, to be headed by Bill Johnson, will take in foreign-exchange and precious metals. trading, alternative asset management, exchange-traded derivatives and short-term interest rates and repos. Clay Herris

Stinnes to sell DIY arm

Stinnes, the German distribution and logistics company, is, all besin e to Re group Rewe. Stinnes, currently a wholly owned substitute of the Veba industrial conglomerate, said the disposal was part of a strategy of concentrating its portiolic shead of an initial public offering of 49 per cent of the company is the second quarter of 1999.

second quarter of 1999.

For Rewe, the acquisition of the DIY business, which comprises a chain of 198 stores with a total annual sales volume of approximately DM1.8bn (\$1.1bn), is a further ansion of the home improvement market. Rewe's chain of DIY stores has DM3bn in annual sales and is market leaster in Germany. The value of the deal was not disclosed, Frederick Stüdemann, Bonn.

TYRES

Pirelli in Japan tie-up

Pirelli, the Italian tyres and cables group, yesterday forged a joint venture with Abe Shokai, the Japanese company. that has traditionally marketed Pirell products in Japan, to help double its sales by the end of next year.

The Italian company said it would support its new venture with a Y1.7bn (\$13.8m) investment, the largest by an Italian company in Japan this year. The commercial joint venture will be managed and 51 per cent controlled by Pirell's tyre subsidiary and will market and distribute car, recreational, motorcycle and agricultural tyres in Japan. The aim was to double volume sales to more than 600,000 units by next year, Pirelli said. Paul Betts, Millen

Murdoch faces Italian setback

CEREAL US GROUP SEEKS TO LIFT COMPETITIVENESS IN LACKLUSTRE MARKET Kellogg axes more than 500 jobs to cut costs Texaco seeks

By Hildd Talt in Chicago

announcements by Kellogg. which reported a 14 per cent Kellogg, the US cereal fall in after-tax profits in the manufacturer, is to cut more first nine months of 1998 and than 500 head-office and has warned that earnings for take a one-off charge of higher and of expectations. North American jobs and a the year could be down by further 240 contract post- one-fifth. tions in an effort to cut costs In 1995-96, the Michiganand bolster its competitive based group cut about 1,200 about 11 cents a share off at 136 by midday.

ness in the lacklustre US manufacturing jobs. although the cost-savings . The move, announced yes falled to restore the compaterday, is the latest in a ny's fortunes.

series of restructuring Kellogg said it expected

beginning in 1998. It will about \$70m before tax to quarter of 1998, knocking weak stock market to stand

after-tax earnings. the impending jobs cuts in the change in people's break-North America, where Kell- fast habits.

By Paul Beth in Milen and John Gapper.in London

News Corporation, the

international media com-

pany controlled by Rupert

Murdoch, declared last night

that it intended to enter the

italian pay televison market

even if a deal with Telecom

The declaration came after

relecom Italia indicated that

it might not proceed with a

draft deal to form a joint

Telepiú service. Telecom

Italia was to have held a 51

News Corp declared that

"it may be that News Corp

Europe will progress its

plans independently of Tele-com Italia" as a result of the

Italian group's "change of

policy". However, it would

continue its talks with Tele-

There were also signs of

Murdoch's move as the Ral-

ian government unveiled

proposals to prevent any sin-

gle broadcaster controlling

more than 30 per cent of

political resistance to Mr matches for the next five

S005000

venture to rival Canal Plus's

Italia collapsed.

per cent stake.

com Italia

ogg, the world's largest would result in annual cereal company, has a 32 per US market has slipped in cholesterol. savings of about \$105m, cent market share. The 525 value from about \$50n a year

t \$36 by midday. The company's problems There had been much sign in part from the decline counter these trends, convenience foods, and speculation over the size of in the US careal market and Kellogg recently knurched a continuously improve the

pay-TV rights for Italian soc-cer. News Corp had been preparing to bid 14,200bp

(\$2.5bn) with Italian and

French partners to secure

pay-TV rights for all first-and second-division league

However, Vincenzo Vita,

yesterday the government magnate's Italian plans.

the Italian undersecretary

for communications, said

redundancies are at the to about \$70m. At the same said yesterday that the However, Kellogg's shares tors have taken a larger slice were part of a general fund the move in the fourth slipped \$1 in yesterday's of the market, and Kellogg's strategy to "increase

> about 40 per cent. As part of its effort to expansion new line of grain-based food cost-efficiency of our

planned to amend its new

broadcasting legislation to

soccer rights any single

broadcaster can acquire. The

has endorsed the proposal.

time private-label competi- latest cost-cutting moves market share has fallen from growth in ready-to-eat cereals, accelerate of

clinch a deal quickly with Telecom Italia, but Franco

Bernabe, Telecom Italia's

new chief executive, is

reviewing the deal negoti-

ated by the former manage-

ment, as well as options

He appears increasingly

reluctant to invest in the

nigh-risk, high-cost pay-TV

business, and is coming

including Canal Plus.

delay any decision.

Arnold Lanebo, chairman

OIL BIJUR PREDICTS BARREL PRICES AT \$15

alliances to reinforce rank

By Christophiet Parkes in Los Angeles

Texaco is in no hurry to find a merger partner, but it is actively considering alliances and acquisitions to third-biggest US oil group, Peter Bijur, group chairman, said vesterday.

already started would yield savings of \$400m next year and \$600m by 2000, when Mr Binur expected oil prices to rise from current lows.

analysts a day after Exxon unveiled its \$75bn link with Mobil, Mr Bijur added that the group would increase capital spending next year, though all the growth would be focused on electricity generation rather than core oil

under political pressure to Salvatore Cardinale, the communications minister, yesterday revived an earlier government proposal to establish a single digital TV platform in Italy, instead of

two competing ones. He areved that a common platform would not breach European Union competition rules, because all content providers and broadcasters

Italian antitrust authority would have access to it. However, a common plat The government's latest form, with the limit on soccer rights, would clearly move, reflecting broad political anxieties over Mr Murweaken Mr Murdoch's doch's Italian TV ambitions. efforts to gain a strong foothas further complicated the hold in the country's fledgling pay-TV market.

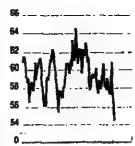
Cost-cutting projects

Addressing Wall Street

and gas exploration. its capital budget for next year was \$4.3bn, down from and Spain's Repsol. this year's planned \$4.6bn, but still ahead of the \$4bn which will be actually spent.

Mr Bijur predicted oil prices, about \$11 a barrel on the New York Mercantile Exchange early yesterday. would average \$15 next year and rise to \$17.50 in 2000. Group output was expec-

ted to rise in 1999 to a daily average of 1.32m barrels of oil equivalent from 1.30m this year. Observers consider ticipant in an expected wave of oil deals following the formation of Exxon Mobil, in part because it appears to Commodities, page 28



have extracted most of the potential economies from its

existing businesses. Others expected to join the next stage of the hunt include Chevron, Unocal, and Atlantic Richfield - all based in California - and European groups Ent of Italy

Texaco recently announced plans to cut its exploration and production workforce by about 1,000, or more than 12 per cent.

The redundancies will reduce the group's payroll by 5 per cent and are due to completed by next spring.

The Texaco strategy of cutting costs while seeking portners is similar to other energy groups. Some estimates suggest aggregate US production will fall 10 per

Cisco in \$126m purchase

Pipel inks for about \$126m in stock, the latest of a string of acquisitions by the leading manufactures of com-puter networking equipment, Reuters reports from San Jose, California.

Privately-held PipeLinks is a pioneer in the development of high-capacity routers. capable of sending voice and data traffic over traditional circuit switched phone networks and newer packetwitched internet networks. Cisco has been a minority investor in PipeLinks since 1997. The acquisition has been approved by the boards ject to various closing condi-tions. of sech company and is sub-

It said the acquisition is intended to enable phone network operators to offer integrated voice and data network services at the edge

Cisco said it planned to take a one-time, after tax charge of 3-6 cents a share in its current fiscal second quarter, ending January, to cover acquisition-related

Prior to the charges, Wall Street had expected Cisco to earn about 36 cents a share in the current quarter, compared with 29 cents in the quarter ended January 1998. according to First Call.





HELLENIC PETROLEUM

PRESS RELEASE

The HELENIC PETROLEUM Group of Composies doubled its consolidated earnings before fax to drs. 32.6 bn during the nine months of 1998 from drs. 16.3 bn during the some period in 1997 and drs. 15.7 32.6 bn during the nine to be for the full year 1997.

The parent company HRILENIC PETROLEUM S.A. registered againings before tox of drs. 26.2 be compared to drs. 9.7 be in 1997, BKO-EDA ABEE, the marketing subsidiary, drs. 5.4 be consolidated and ASPROPOS S.A., the angineering subsidiary, drs. 1.05 be. Refinery sales reached 7.8 mil. MT, on increase of 4.9% over 1997. Chemicals sales increased also by 4.9% reaching 287 th, MT, The sales of SKO-ELDA to the home market rose to Z.6 mil. MT up 3,0% from

The Group's nine months soles proceeds reached drs. 523 bn compared to drs. 550 bn in 1997, reflecting the substantial drop in oil prices during 1998.

Earnings before depreciation and financing costs reached day, 49.2 bit and operating profit drs. 35.5 bit, compared to drs. 40.4 bit and drs. 27.5 bit respectively for 1997. The improvement in earnings was primarily the result of botter refinery utilization and improved refinery margins.

The Group's investment program is proceeding with, among other projects, the start-up of construction for the polypropelane and BOPP-film units in Northern Greece, and the recent acquisition the G., MAMIDALIS.

cults between the Greek GAAP and IAS financial re

SHERMAN'& STERLING

You began this when Europe's economy was on an upswing, markets were strong, and almost any firm could handle a merger or acquisition with ease.

Still, you chose Europe's leading firm, just to be certain. You're glad you did.

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This firm brings you all the qualities you need. They know Europe as only Europeans can. And world markets as only a global firm does.

They give you a strong hand at the negotiating table. They come up with financial innovations when the capital markets weaken.

Most important, they have a way of overcoming even the most complex business problems with one powerful belief.

Anything is possible.

MORGAN STANLEY DEAN WITTER

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CAR INDUSTRY ROVER LOSSES BLAMED ON STRONG POUND AND WEAK MODELS

BMW reins in unruly charge

Motor Industry Correspondent

As attempts were made yesterday to talk up Rover's tion as foreign rivals have future after agreement on its radical labour flexibility from currency gains to cut deal, the key question that remained unanswered was why BMW had waited so long to grapple with its wayward UK subsidiary.

Rover is forecast to lose at least DM500m (\$296m) this year under BMW's conservative accounting rules. That is nearly double the DM260m lost in 1997. This year's figure may actually be much higher. Analysts' estimates exclude the 3.000 job losses agreed under the new flexi-bility deal. Extra provisions for the redundancies will be added to this year's Rover accounts to give Werner Sämann, the new chairman, a clean slate when he takes over in January.

The strong pound has been one factor behind Rover's

margins have been squeezed. In the UK the company has suffered from rising competiused their higher margins prices and bolster advertising and marketing.

Running Rover at arm's length with visits 'one day a week' may not have been ideal

Weak models have been another cause of Rover's problems. Part of the range has been replaced: BMW has been spending \$500-\$600m (\$825m-\$990m) a year on products and equipment since huving Rover in 1994. That has led to attractive new vehicles such as the

eign sales less prolitable as Land Rover Freelander, the revised Discovery and the new Rover 75 saloon, due to go on sale next March.

excluded the small and mediduction at Longbridge, dates back decades and once built post-war Austins.

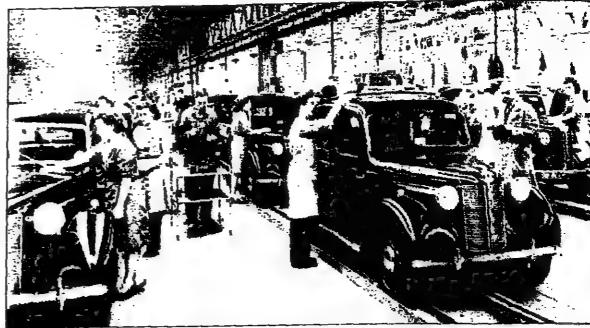
Declining demand for the steep fall in Rover's UK market share. In October this fell to a record low of 6.6 per cent. November's figure is not expected to be any better.

Rover's problems, signalled by a first set of 1.500 iob cuts earlier this year, are now overshadowing BMW itself. Its share price came under heavy pressure this week amid rising concerns about Rover's losses and rumours of a split on the Munich board about how to

tion, Mr Hasselkus said he had underestimated the advantage the strong pound But spending has so far -would give to Rover's foretgn competitors and failed um-sized passenger cars that to react in time to the danform the backbone of pro- ger signals in the home market. In October, Renault for Rover's biggest factory that the first time overtook Rover to become the UK's third

most popular car brand. Mr Hasselkus's resignation 200 and 400 has been one of also betrays a willingness to the main reasons for the shoulder what may be the responsibilities of other BMW executives. Since buying Rover in 1994, BMW has been generous with new investment but less urgent in tackling deeper problems at its subsidiary.

For two and a half years after the takeover, Rover's managers were left largely to their own devices. First Bernd Pischelsrieder, BMW's chairman, then Wolfgang Reitzle, the German group's number two, were titular chairmen. But, as Mr Pischetsrieder conceded yester-



Glorious past: Austin care receive a final polish before leaving the old Longbridge works in 1946

day, running Rover at arm's length with visits "one day a week" may not have been ideal. The attention to integration and corporate culture at DaimlerChrysler suggests others may have learned from BMW's mis-

BMW recognised its fall-ings when it appointed Mr in October with the arrival Hasselkus, a board member, of Christian John von Freyto run Rover in September 1996. Since then, links between the two companies have been strengthened and BMW has adopted a much interventionist

end, BMW's former financial controller, as Rover's new finance director.

Mr Pischetsrieder says

"We don't need German executives or British executives or US ones: we need good ones," he said yester day. But what Rover needs above all, and especially at Longbridge, are attractive there will be no further products. And those still "Germanisation" of Rover. appear a long way off.

How the group shapes up BWW total investment Value added per capita (Japan = 100) 120 Total investmen Rover Group Profits by division, 1997 (CM bol Results from ordinary business activities 2,529 DM bu

Made in England but controlled from Munich

BMW has lost patience with Rover, which is paying for its failings with its independence, writes Graham Bowley

was in London that Bernd Pischetsrieder. BMW chairman, yesterday outlined the future of Rover. But the fate of the onceproud British company was decided many miles away, in BMW's futuristic headquar-

ters in southern Germany. It is unclear what forces within the Munich boardroom shaped events. Two possible explanations have been put forward. According to the more dramatic version, yesterday's pronounce ments, which have ramifications across Britain's manufacturing industry. reflect management unrest deep within BMW.

These are centred around a bitter boardroom feud between the unassuming Mr Pischetsrieder and Wolfgang Reitzle, BMW's flamboyant development chief and the

company's undisputed number two. In this scenario. Rover - and Walter Hasselkus, who yesterday resigned as Rover chief executive - are merely unwitting pawps in a wider political

According to this conspiracy theory, which resurfaced this week in the German press, Mr Reitzle is still seething about being pa over for the top job back in Once the beir apparent to

former BMW boss Eberhard von Kuenheim. Mr Reitzle united but that they and was punished after it became known that he had been considering jumping ship to head rival German car group Porsche.

But he still harbours ambitions for the chairmanship and, so the theory goes, is using Rover's failings, which irksome given the success of

his rival Mr Pischetsrieder. The resignation of Mr Hasselkus and the whittling Seat of Spain and Skoda of down of much of Rover's the Czech Republic. independence - the inevitable result of the changes

rieder is forced to pay, having favoured keeping Rover as an independent company within the group. They're at each other's pro-Rover, so by definition Reitzle is anti-Rover," said

announced yesterday - is

the sacrifice Mr Pischets-

he second explanation is a more sober reading of events and more likely. This is that BMW's board is shareholders (mainly the Quandt family, which owns more than 40 per cent of the company) and the supervisory board have finally lost their patience with Rover's

one company insider.

failings. These have been especially

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together towards achieving

business goals and links the

return on financial resources

into the day-to-day operating

parameters of the business.

functions how to work

shows managers of different

have undoubtedly weakened competitors such as Volkswagen in turning round its independence. "This is a own recent acquisitions.

The failings have been

rammed home by sharp falls in the BMW share price as investors have become worried by the company's inability to sort out Rover's problems and to close what Mr Pischetsrieder claimed is still a yawning productivity throats. Pischeisrieder is gap between the German and UK factories.

The result: out goes the softly-softly approach to Rover's integration favoured at first in the interests of British relations, Instead, BMW will begin the radical overhaul of Rover it should probably have launched when it took it over in 1994.

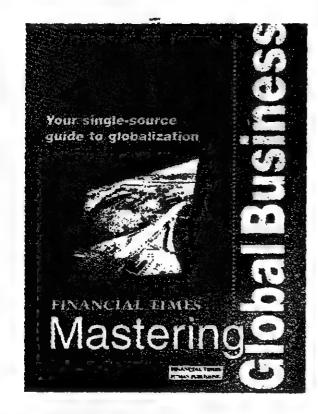
This means lob cuts. imposing the flexible labour time models that bear the stamp of BMW's own Bavarian factories, and more German managers in Rover's factories. Out goes Mr Hasselkus, who had tried to

stepping up of BMW's pressure on Rover and Rover's independence has gone," said one analyst.

The appointment of a relatively unknown company insider, Werner Samann, adds to the impression that BMW is keen to grab full control of Rover.

Mr Sämann, a professor at Berlin Technical University and currently responsible for BMW's engines and chassis, is unlikely to want to plough his own course. Instead, as BMW emphasised yesterday he will be more interested in tackling Rover's many technical difficulties, which is exactly what the company needs right now. "He is a straight guy, very target orientated and tough." said one

executive. Regardless of the political battles that may or may not riors back in Munich, it will be up to Mr Sämann to bring Rover back to profit.



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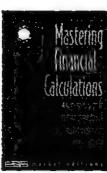
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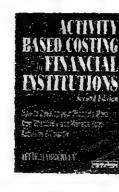
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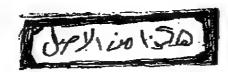
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By Alexandra Harney in Tokyo

AN THE LAMBERT SEED.

Munich

Ban Jan

Nissan, the Japanese car and truck group, is accelerating efforts to reduce its heavy debt burden by selling assets

iary that designs company brochures, to TBWA World-

global marketing group. The (\$236m) in the first half, said half would be Yis. Thu, it move follows Nissan's sale of it would record Y80bn in added. a controlling stake in Nippo, extraordinary losses in the

the company said yester-day it had agreed to sell 66.6 per cent of Nissan Graphic Arts, a wholly owned subsidiary that design and subsidiary that design and

brochures, to TBWA World- 36 per cent collapse in pre-wide, part of Omnicom, the tax profits to Y28.8bn nary losses in the second

into cash-generating which is expected to take costs, and Y30hn from the

.. Most of these charges had The company, which had a been taken in the first half,

after it became clear that

serions differences between

the various parties could not

These include manage-

ment control, which was key

to Cathay Pacific, and valua-

tion. Cathay Pacific earlier

sional offer of up to 4bn

pesos (\$102m), and that this

would include other foreign

Nissan also confirmed

its advertising arm, to full year. Of this, Yaobu plans to turn its Zama plant Y1,000bn to Y400bn after criticised the group's TEWA in September. would be from valuation south of Tokyo, which warning that it expected to restructuring as "too little," and turning idle properties ment on the price of the sale, Y39bn from restructuring operations in 1995, into a car showroom.

expressed an interest in taking an equity stake in Nis-

In November, Nissan ing Nissan's efforts to pledged to reduce its improve its sales and finance interest-bearing debt from operations in the US, have record Y30bn in group net too late". With Japanese losses this year - the sixth domestic car production year of losses in the past expected to fall below 10m

plans include consolidating ket will be the critical factor model platforms from 20 this in determining Nissan's year to five by 2005, and reorganising its lessmaking US operations. Analysts, while applaud- at Y402.

units this year for the first The group's restructuring time in decades, the US mar-

in determining Nissan's cashflow this year, they said

Shares in the group gained Y7, or 1.8 per cent, to close

VEHICLES

subsidiary. Clay Harris

JAPAN

Astra ahead in third quarter

Astra International, the Indonesian car and motorcycle maker, yesterday credited non-core businesses for a 40 per cent rise in third-quarter operating profits, but conceded that much of the increase was a one-off gain on

Nine-month figures showed a net loss of Rp488bn (\$40m), compared to a profit of Rp326.9bn last time. In the first half, net losses were Rp7,360bn, mostly due to foreign exchange losses on \$2bn in debt, but a new regulation issued in September allowed Astra to defer Rp5,300bn in

NEWS DIGEST

Standard & Poor's yesterday placed the ratings of Japan's

Nikko Securities under review, with negative implications.

The ratings agency said Nikko's business was likely to "remain under intense pressure and could deteriorate fur-

ther in the medium term". S&P also cited increasing con-

cerns about how beneficial Nikko's alliance with Citigroup

might be. The US company, combining Citicorp and Travelers, is taking a 25 per cent stake in Nikko, which is put-

ting its businesses outside Japan into a joint venture with

Salomon Smith Barney, Citigroup's investment banking

Nikko Securities put

under review by S&P

Astra said that a strong rise in revenues from businesses other than its core automotive division, such as consumer goods, electronics and timber products, had helped bolster revenues, leaving them down 22 per cent to Rp8.510.9bn,

The group held down the cost of revenues, despite 80 per cent annual inflation, leaving gross profits on non-financial businesses up nearly 11 per cent to Rp2,630.4bn. Astra has cut costs, including staff, but it conceded its margins were flattered by use of cheap imported inventory, bought before the rupiah crashed last year. Sander Thoenes, Jakarta

SOUTH KOREA

Samsung mulls car unit swap

Samsung, the South Korean conglomerate, la discussing swapping its car business for the consumer electronics operations of Daewoo, local media reported yesterday, quoting a senior presidential aide. The deal would represent a renewed focus on core businesses for both groups. Samsung is Korea's biggest electronics company, while Daewoo is the nation's second largest carmaker. Samsung Motors and Daewoo Electronics are similiar in size in terms of assets and debts. Neither Samsung nor Daewoo was available for comment.

Samsung has been criticised by analysts for expanding into car production this year despite its lack of experience in the sector. Its exit from the car industry would leave Hyundai and Daewoo as Korea's only carmakers. Daewoo has been the subject of recent speculation about its financial health, and its electronics unit is considered the weakest of its three main businesses, which include cars and shipbuilding. John Burton, Seoul .

COSMETICS

Kao sells remaining IT assets

Yesterday's announcement was made after the market

Tenaga sells plant for M\$740m

in Kuala Lucopur

distribution_

Tenaga, Malaysia's national power utility, is selling a 330MW power plant to Powertek, an independent power producer, for M\$740m (US\$195m) as part of its efforts to streamline operations and cut costs. Tenaga plans to concentrate on transmission and

Powertek will pay M\$296m cash, with the rest payable over six years. The deal also includes an option for Tenaga to acquire up to 27.85 per cent of Powertek's equity between the third and sixth annual interest of 7 per cent. Powertek is the only Malaysian independent power producer in which Tenaga does not hold a Powertek's board.

As the regional aconomic crisis struck last year, Tenaga moved to delay 60 transmission and distribution projects worth M\$3bn. -

Ahmad Tajuddin All, executive chairman, said at the time the utility had been. hard hit by increasing loan costs due to the falling ringgit, given that its loan portfolio was largely denominated in foreign currency. Malaysia has since fixed the exchange rate at M\$3.80 to the US dollar.

Tenega reported net losses of M\$3.1bn for the year to August 31, against a net loss a year ago of M\$141m.

Tenaga expects to return to profitability next year if that once the preliminary agreement was sealed, it would sign a power purchase deal with a Powertek unit that would run the plant under an initial 21-year

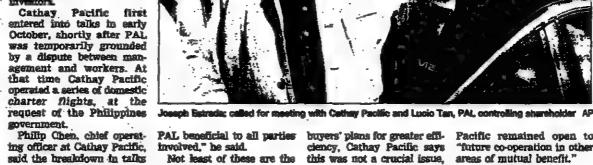
Cathay pulls out of talks on PAL stake By Louise Lucas in Rong Kong round. It said it abandones

Cathay Pacific, Hong Kong's de facto flag carrier, has pulled out of talks to take a stake in the troubled Philip oine Airlines after failing to reach agreement on price

and management control.
PAL said yesterday that talks had resumed with said it had made a provi-another unidentified foreign sional offer of up to 4bn suitor and that a local group had stepped in, pledging \$90m, or 60 per cent of the \$150m needed for rehabilitation. However, the collapse of talks with Cathay leaves debt-ridden PAL looking yulnerable,

Joseph Estrada, president of the Philippines, yesterday called for a meeting with Cathay Pacific and Lucio Cathay Pacific and Lucio charter flights, at the Tan. PAL's controlling request of the Philippines

"If PAL closes down, many businesses will be uffacted so year. The balance paid dur-ing the period will carry to see to it that negotiations to see to it that negotiations will push through." he said. But Cathay Pacific held out little-hope of a turn-



Not least of these are the 8,000 staff, whose jobs Mr Estrada has pledged to keep. felt we could have made a-While some analysts say this significant contribution towards the rehabilitation of conflicted with would-be

ciency, Cathay Pacific says this was not a crucial issue, given that the need for staff cuts had been signalled before it entered into talks. Mr Chen said Cathay Observer, Page 15

His comments were wel-

stake. The deal also gives Marubeni speeds up disposals Tokio Marine eyes as trading conditions worsen securities tie-up

was unfortunate. "We really

By Michiyo Nakamoto in Tokyo

Marubani, one of Japan's leading trading companies, is stepping up moves to reduce its group assets in an attempt to improve its bal-

mitially, the company had

planned to reduce assets by Y500bn (\$4.1bn) over three the ringgit remains pegged 7500bn this financial year and electricity demand and a further 7500bn over increases as expected, it said the next two business years. The group had assets of Y7,389hm at the end of September against interest-bearing debt of Y5,100bn.

Marubani plans to reduce

products it holds, such as corporate bonds with low interest rates, and by reducing inventories.

The move was dismissed Marubeni said it had ing," said Kota Nakako, at its capital base. decided to bring forward its Warburg Dillon Read in plans because of the deter- Tokyo. The company had

The move seemed to have been prompted by a need to its support could be about 5 years. However, it is now, reduce financial assets proplanning to reduce assets by viding low yields as a result Y500bn this financial year of the increasing interest costs facing Marnheni, Mr. Nakako added.

invest them in low-risk to securities losses amountcorporate bonds, to make a A quarter of this is attriassets by not renewing profit on the spread. How-buted to its holding of Fuji ever, as fund-raising costs Bank shares.

tions, by selling financial have risen, this has become

Separately, the company yesterday indicated it was prepared to provide Faji Bank, a member of the same by analysts as defensive. Fuyo group of companies,
"This is not real restructur—with about Y10bu to boost

Fuji Bank has said it was hoping to increase its capital iorating business environ- not yet faced up to the need by about Y200bn, but has not to deal with unprofitable made an official request to the first time a non-life Marubeni.

Marubent said it expected per cent of the total Fuji Bank aims to raise

Marubeni's own financial position remains weak. It has a net debt-to-equity ratio Trading companies used to of more than 900 per cent borrow funds at low cost and and will report a net loss due financial products such as ing to Yesten in the first half.

Tokio Marine and Fire Insurance, Japan's largest property and casualty insurer, is holding discussions with Charles Schwab, the US discount broker, to form a johnt brokerage ven-. ture, say sources close to the Japanese company.

If successful, it would be insurer entered the securities business in Japan.

Tokio Marine, which is affiliated to the Mitsubishi Group, yesterday said it was considering several options in response to Japan's Big Bang financial deregulation. It would not comment on the talks with Charles Schwab.

Although the entry of foreign insurers into the property and casualty insurance market is expected to increase competition in

nesses, analysts questioned

David Threadgold, insurance analyst at ING Baring Securities in Tokyo, said discount brokers marketed would not need Tokio Marine's network of agencies across Japan.

"A Charles Schwab link-up would be more with the Mitsubishi Group [which includes financial institutions such as Bank of Tokyo-Mitsubishi] rather than with Tokio Marine," said Hideyasu Ban, insurance analysi at Morgan Stanley Dean Wit-ter in Tokyo. "Charles Schwab would be able to access a large client base and the Mitsubishi group would be able to diversify its

business range into areas

such as online trading."

Kan, the Japanese cosmetics and tolletries group, yesterday concluded the restructuring of its information technology division by seiling most of its remaining assets to Zomax Optical Media, #US compact disc maker, for about \$80m. Kao would not give details of the operation's seles and profits, but said the businesses, in the US, Canada, Ireland and Germany, represented the core of its IT operations, which had generated sales of Y40bn last year. The deal ends Kao's withdrawal from information technology, although the division still has some land and build-

had closed. The shares ended unchanged at Y2,370. Paul Abrahams, Tokyo

CONTRACTS & TENDERS

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KINGSWAY

Marley agrees \$603m bid from Etex

Marley, the underperforming building materials group, was preferable "in every yesterday surrendered its sense" to Mansfield's, which independence by recommending a £365m (\$603m) sequent break-up of Marley. cash offer from Etex. a private Belgian group, days and Marley will create a after a hostile bid from John powerful building products Mansfield, a small lossmaking timber company.

David Trapnell, chief exec- plementary in terms of produtive of Marley, said the ucts and geography," he group had been in talks with Etex for more than a month prior to Mansfield's £270m in flooring, cladding and all-share bid last week and floor coverings, is offering had brought forward the 125p in cash for each Marley

MEPC, the UK's third largest

property company, yesterday delivered an unusually

gloomy forecast for the prop-

erty market in the year

ahead, saying that both

rents and capital values

could fall victim to a general

in a statement accompany-

ing MEPC's year-end results.

chief executive. James Tuc-

key, said: "The expected

Virginia Marsh analyses the problems

I ith investors still reel- seen as a beliwether for

the crowd.

ing from the British other UK biotech stocks

ted on Tuesday that two of It was never a favourite that

because British Biotech, one making optimistic state-

of the most highly rated ments. The unease was deep-

facing the biotechnology concern

Biotech affair, it was

not news that anyone

wanted to hear. When Cor-

tecs, another quoted UK bio-

technology company, admit-

its three main drug develop-

ments were not as advanced

as it had previously sug-

gested, the fear was that the

sector, after showing signs

of recovery, would again be

But apart from the predict-

able collapse in Cortecs

shares - at yesterday's price

of 15p the company is now

valued at £24m (\$40m), com-

pared with more than \$600m

in 1996 - the sector has held

This is in large part

steamrollered.

RESULTS

economic slowdown.

He claimed Etex's offer price of 105%p. would have involved a sub-The combination of Etex

group across the UK and Europe. We are highly com-

Etex, which has interests

demand. There is, as yet, no

evidence to suggest that the

until the economic outlook

tainty about future property

values has already reduced

while Cortecs was just one of

"Cortecs was never more

than a middle-ranking bio-

technology company at best.

attracted big institutions in

the way that British Biotech

did." said Karl Keegan, at

He added that valuations

Drewdner Kleinwort Benuon.

in the UK sector were far

lower, and more in line with

those of US biotech stocks

than they were when prob-

lems at British Biotech

began to emerge. Analysts

and investors had already

become more discriminating.

Even before Tuesday's

statement, many analysts

felt. Cortecs was prone to

companies in the sector, was ened in the summer by the independent, given the hard

He added that a combina-

recent rise in rental values

deal after its unwelcome share a premium of 18 per cent to Tuesday's closing

This equates to an exit multiple of 10.8 times 1998 earnings and a forward sales multiple of 0.7 times. Analysts said both these figures were low for the building materials sector, but this reflected Marley's poor stock market performance.

After announcing the bid, Etex instructed its advisers, costs up to £1.5m, expressed Dresdner Kleinwort Benson, to buy up to 29.9 per cent of Marley's shares in the mar- 14.9 per cent stake in Marley ket. By the close of business. it had purchased 20 per cent. £24.5m, even after paying the

omy next year will have an property buyers. "On the UK economic climate while

clear evidence of a slowdown

in the number of transac-

tions as buyers either experi-

in the expectation of falling

tion of tougher lending the outlook for property con- asset value at the beginning

terms and investors' uncer- trasts with statements from of 1998, they are currently

recent weeks, which have

Delays to drug programme leave Cortecs in isolation

resignation of Glen Travers,

founder and chairman, and a

subsequent row over his

nav. As a result, shares in

Cortecs had already fallen

from 195%p in February to

week. Yesterday they rose

While the sector may be

31/sp, after falling 76 per cent

able to shake off this latest

setback, the outlook appears

bleak for Cortecs, Unlike

British Blotech, which had a

fat pile of cash to cushion it

through its crisis, Cortecs is

rapidly burning up its slim

announced to its Macritonin

osteoporosis treatment and

to Pseudostat, for eystic

fibrosis and bronchitis, will

involve extra cost as the

lossmaking company con-

Some analysts even won-

der whether it will remain

ducts further tests.

In addition, the delays it

on Tuesday.

MEPC gloomy on property outlook

adverse effect on occupier investment front there is

will now go into reverse, but ence difficulty in arranging

this remains a possibility finance or decide to sit tight

Analysts immediately said Mansfield, the bidding vehicle for Stuart Wallis, the However, the fund man ager insisted its policy was former chief executive of not to induce bids for under Fisons, was unlikely to come

satisfaction with the out-

disclaiming any clear signs

that earnings or asset

However, investors in the

sector have signalled that

they expect asset values and

rents to fall. While property

shares traded at an average

about 20 per cent. In the past

with lesser problems have

"One of the most alarming

things is that the cash burn

has not fallen in the way

promised," says Robin Gil-

about £16m, enough to last a

year. The new team, headed

by Lord Patten, the former

minister who became chuir-

man in June, promises cost

cuts and says it is in talks

inklings within the company

Cortecs says it has cash of

that the former manageme

bert, of WestLB Panmure

faced in recent weeks.

growth will be affected.

slowdown in the UK econ- the number of available acknowledged the tougher few months analysts have

Mr Tuckey's assessment of 27 per cent premium to net

other property companies in trading at a discount of

back with a higher offer. performing companies in Mansfield, which put out its offer document yesterday. could say Marley was some said it was considering its thing of a one-off," said Hugh Sergeant at P&D. Philips & Drew, which accepted Mansfield's offer and offered to underwrite its

Analysts said the bid would be welcomed by Marley shareholders given its underperformance. The company has been a sitting come. P&D estimated that its duck, mainly because the management team has little had increased in value by credibility with investors.

been cutting forecasts for

emwih in profits and asses

MEPC also reported pre

tax profits of £206m (\$340m),

against 584m, for the year to

September 30. However, the

results were flattered by a

£52m gain on the sale of

there were £9.5m in restruct-

uring charges and a £73m

charge relating to interest

Arcadia warns on Christmas trading

A profits warning from Arcadia, the fashion retailer, underlined recent poor trad ing news from other retailers and increased concerns that the sector is facing a gloomy Christmas.

Worries prompted by a slow start to the vital Christmas shopping season were deepened by Hornby, the toy maker, which warned its full-year profits would be hit by late ordering by retailers in the run-up to the holiday period.

Arcadia shares fell 75%p. r 26 per cent, to 2121/2p on the warning that sales per square foot had fallen 1.8 per cent in the past 13 weeks The group said "there has been a sharp downturn in high street spending and exceptionally high levels of markdown-driven competitor

John Hoerner, chief execu investment properties while tive, said that while a sudden recovery in sales might happen, "as the pattern of established, it is much less likely for that to occur".

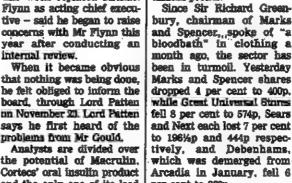
The warning came barely two hours after Warburg Dillon Read, the stockbroker, cut its profit forecast for the group from £90m to £70m pre-tax, compared with £81.1m in the latest financial

ear to August 29. After the company's state ent, other brokers cut foreasts, some as low as to 30m. Arcadia, the renamed urton Group, includes hains such as Burton men's ear, Top Shop and Top lan, Dorothy Perkins, Priniples, Racing Green and

The run-up to Christmas is vital period for retailers as ales can run at two or three mes normal levels, and trationally are made at full price. The trading period can account for more than 50 per cent of a non-food retailer's annual profits.

bury, chairman of Marks and Spencer, spoke of "a bloodbath" in clothing a month ago, the sector has been in turmoil. Yesterday Marks and Spencer shares dropped 4 per cent to 400p. while Great Universal Stores fell 8 per cent to 574p, Sears and Next each lost 7 per cent to 1961/sp and 444p respectively, and Debenhams, which was demerged from

per cent to 360p. Arcadia had been more optimistic than other retailers. When it reported its annual results in late October, it said that while trading conditions were "chailenging", it was outperform-



ing other retailers.

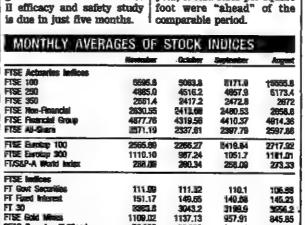
At that time, after seven weeks trading in the current year, it said sales per square foot were "ahead" of the

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It is appointing external company's programmes in the hope of rebuilding confithis week replaced Michael dence and will look into the Flynn as acting chief execucircumstances under which tive - said he began to raise concerns with Mr Flynn this Cortecs continued to give encouraging signals about

its programmes despite internal review. that there were problems. that nothing was being done, Phil Gould - the former he felt obliged to inform the Glaxo Wellcome executive board, through Lord Patten on November 20. Lord Patten says he first heard of the

> Cortecs' oral insulin product and the only one of its lead programmes still on track. Some say it is a tricky product to develop, requiring painstaking science and testing, and has been overtaken by other drug delivery techniques. Others see it as a potential blockbuster and say the collapse in the company's shares is overdone given that data from a Phase Il efficacy and safety study



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urthyst Funding Corporation I USD 200,000,000 rel Ameriking Floring Rate Nat r the Innoces period I" December, 1996 to or January 1999, the Notes will carry a Riser of Interest of 5.846564 per mause. The compos America per USD 899-38264 Note will be USD 4,689.53 payable on 4º Juneary.

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LEGAL NOTICES

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denomination of FRF 10,000 and FRF 762.50 per denomination of FRF 100,000 and are payable on the interest payment date March 4, 1999.

ABBEY NATIONAL

TREASURY SERVICES PLC

FRF 1,000,000,000 TEC 10 Indexed Floating

Rate Notes due 2006

ABBEY NATIONAL PLC

Notice is hereby given that the rate of interest for the period from December 4, 1998 to March 4,

1999 has been fixed at 3.05 per

The coupon amounts due for this period are FRF 76.25 per

cent per annum.

practitionally and inevocably guaranteed by

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COMMENT

It was not a question of if but when Arcadia would issue a profits warning. Storehouse did it nearly two weeks ago, saying the clothing market had shrunk by 4-5 per cent in the previous month. Arcadia is now left looking inept because it appears to have been bounced into the warning by Warburg's forecast. Leaving poor execution aside, the alarming upshot of the statement is that pre-tax profit forecasts for 1998-99 have been cut to as little as £60m. Six weeks ago, when Arcadia said it was doing bet-

ber than its peers, figures of

the FTSE General Retai

£80m-£90m seemed in order. With discounting rife in the fashion business, margins are being shredded. Chains of small stores, such as Arcadia's, suffer dispropor tionately because of their higher fixed costs. This means the management has little room for manoeuvre. So restoring credibility is only part of the challenge in an over-supplied UK retail sector.

It may surprise followers of Marley's sorry recent history to learn that it still has sufficient strategic value to attract two bidders within a week, let alone that anyone would offer 46 per cent more than the pre-bid share price. A year after Redland's sale to Lafarge of France, the UK's other main roof tile maker now seems certain to fall to Etex of Belgium. John Mansfield says shareholders could have found more value by hanging on as it refocused Marley, but investors will probably choose Etex's cash over the diminutive rival's audacious paper bid.

Others in the unloved sector, such as Caradon, Rugby and Hepworth, should take note. Like Marley, which strayed into making plastic garden products, there are too many miniconglomerates waiting to be broken up. Too often, their strong domestic market shares look unimpressive from a Europe-wide perspective. Caradon is talking of selling its doors and windows assets, and Hepworth is murmuring about "reshaping" its portfolio.

if the companies cannot restructure fast enough themselves, investors should force the pace. PDFM, which put the company in play by backing Mansfield's bid, has the consolation of having made £24.5m this week. PDFM is unlikely to make a habit of such tactics, but it has sent a clear signal that shareholders' patience is limited.

NEWS DIGEST

FUND MANAGEMENT

M&G shows the first fruits of recovery

The first fruits of recovery began to show through at M&G last year, helping the retail fund management group lift pre-tex profits by 13 per cent to £76.1m (\$125.6m). The performance in the year to September 30 came despite a £111m outflow from the group's unit and investment trusts and a drop in funds under management from £18.1bn to £16.8bn, caused by falling share prices and redemptions of unit trusts.

The outflow, however, was down sharply on the previous sar's £220m. Moreover, the current year has started well, with positive net sales of unit trusts and a rise in funds under management to £18.4bn by November 26.

Michael McLintock, chief executive, said the group was recovering after problems earlier in the decade when it had been overly "patrician" and investment performance had suffered from too narrow a focus. It was communicating better with independent financial advisers and had a broader product offering, he said. A particular success was the recent launch of a high-yielding corporate bond fund which has taken £70m since its October launch. Christopher Brown-Humes

INSURANCE

Risk transfer move for CLM

CLM insurance Fund, one of the largest corporate investors at Lloyd's, has moved into the growing alternative risk transfer market where insurance risks are securitised in the form of bonds. This could pave the way for CLM to issue bonds of its own using Lloyd's underwriters to rate risks, but at lower cost than through Lloyd's.

CLM has created a wholly-owned subsidiary. Alternative Risk Transfer, which has invested £3m (\$5m) in three catastrophe bonds, offering cover against hurricanes and earthquakes. CLM said the securities, which had been issued by large reinsurers, had been carefully chosen to give it a wide spread of risk.

Although ART is a non-Lloyd's entity, the investments have been rated by underwriters on two syndicates wholly owned by CLM, Peter Ettridge on syndicate 575 and Graham Potter on syndicate 1415.
ART's Initial 23m securities investment represents about

2 per cent of CLM's portfolio of £128m. Andrew Bolger

SUPPORT SERVICES

Mentmore deal with Iron Mountain

Mentmore Abbey, the storage group, is selling 50.1 per cent of British Data Management, its corporate archiving business, to Iron Mountain of the US for £27.3m (\$45m) cash to create a joint base for expansion into continental Europe. The deal, which values BDM at £66m, will give Iron Mountain, the largest corporate archiving company in the US, a better foothold in the growing UK market. In return Mentmore Abbey will gain access to the US company's advanced computer systems and operational expertise. The joint venture company will absorb Arcus - Iron Mountain's existing UK business, which is valued at £1.5m - and assume £10m debt.

Analysts said Iron Mountain had paid a full price for its stake in BDM, which made operating profits of £3.57m on turnover of £17m for the year to April 30.

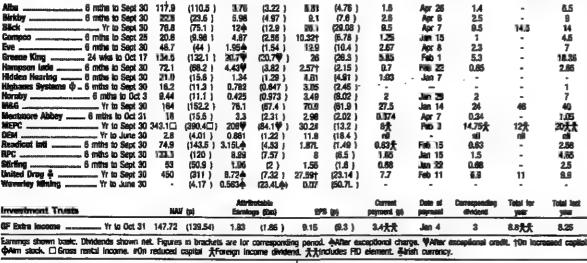
The UK company also announced pre-tax profits up 43 per cent at £3.3m for the six months to October 31, on turnover of £16m (£15.5m). Its shares rose 171/-p to 1081/20. Thorold Barker

BUILDING MATERIALS

Another US buy for Hanson

Hanson, the aggregates group, has made its second US acquisition this week, buying Nelson and Sloan, a Californian cement and aggregates company, for \$37.3m. The purchase brings the total Hanson has spent in the US this week to \$62.3m. It has bought five US companies this year, for \$304.9m, through its Cornerstone subsidiary.

Justin Read, group finance director, said the run of purchases was far from over. "There is an acquisition pipeline," he said. "As we do more, we are shown more companies." Lucy Smy



Earnings Shown basic. Dividends shown lief. Figures in brackets are for corresponding period. After exceptional charge. Valter exceptional credit, †On increased capital. After exceptional charge. Valter exceptional credit.

EUROPEAN INVESTMENT BANK

YEN 35,000,000,000 Floating Rate Notes due May, 2008 In accordance with the provisions of the Notes, notice is hereby

 Interest period: November 30, 1998 to May 31, 1999 Interest payment date; May 31, 1999 (182 days). Interest rate:

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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Change of directions of satellity:

MANAGEMENT MODEL COMPANIES

corporate

Jackson looks at how

managers can assess

upsetting all-important

and squeeze your suppliers. Hey

share price, and the shareholders

and suppliers, and they will dam-

age you in return. Everyone, in

in the long run, no stakeholder

will stay in the game unless they

get more out of it than they put

Every worthwhile chief execu-

tive knows that, and instinctively

adjusts the business accordingly:

instinctively, because the interac-

tion of the variables seems too

But must this be so? In the age

of the computer, is it not possible

to build models that will predict

Yes, some would say. The

In the world of manufacturing,

this has been employed at least

since the 1960s. If you are run-

ning a cement plant, you can

build a model of how it functions.

You can then feed in variations

in ingredients, temperature and

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Market Lane -

B buy for Hanson

APPROX. Mark Section 2

美术 经由于 Researchers in the US are own. The antenna could be

> antenna. The advantage of an adjustable antenna is that it could change the shape of its reflectors while in orbit to improve signal quality. It might also be possible to

simulator Changing strategy can be hazardous. Tony

> in response to a wage freeze, experienced people will leave and bave to be replaced by the inex-

Creating shareholder value, some might think, is in theory pretty simple.
All you need do is slash your Granted, the executive says, you cannot measure the impact with any precision. But by asking workforce, shove up your prices the experts in your organisation - in this case, the human presto - up go your earnings and resources director - you can

a wage freeze will increase staff that. Things bite back, and so do turnover from 5 per cent to 6 per people. Maltreat your customers cent. Run that through the model, and see whether the cost outweighs the savings. If the the jargon, is a stakeholder: and answer is no, increase the assumption to the highest level you think is feasible - say, 10 per cent. If the answer is still no, you can be pretty sure you have a

> tive says, is that this attempts to measure soft data as well as

you're sure about," he says, "you

costs. At issue is the level of service which the utility can achieve, which depends heavily on staff morale.

perienced. Those who remain will perform less well. To an extent, this will damage revenues. But

form a rough idea. Begin with the assumption that Real life, of course, is not like

The important point, the execu-

"If you only model the things

At this point, the sceptic might object that an example drawn from a utility is of limited rele-The reason why dynamic simu-

we know is wrong."

impact. And that is the one effect

lation works in a coment factory or chemical plant is that there are physical constants involved. if a reaction happens once, the odds are it always will. Similarly, there are more constants to a utility than the aver-

'More managers will become organisational designers rather than pliots. The nature of management education will change'

tends to dominate people's thinking, and the softer things get a very low weighting in your deci-`alona."

backs elsewhere in the process. If you run the model repeatedly, The point is reinforced by Professor John Sterman, head of the allowing those feedbacks to take systems dynamics group at the effect, you can quickly establish Sloan School of Management. how the plant's efficiency will be "There is nothing wrong with making assumptions", he says. One European utility, which "The question is whether they refers not to be named, claims. are reasonable, relative to your to have applied this principle suc- purpose.

ceasfully to management. For . "If morale goes down, and the tions example, says the executive in best people leave first, that is a chat. charge of the programme, take reality. But you don't have the question of whether to numerical data for it, if, as a result, you don't put it into your The cash savings of this can be model, you're assuming zero

and up describing only a very age business. The phones do or small part of your business. That do not work: gas leaks get fixed promptly, or not. All the while, the essential service rumains the

But at the other end of the spectrum, take an internet com-pany. There, everything is variable, and the future is wholly unclear. Modelling seems out of the question.

On the other hand according to one specialist in the field, the cake is not expanding, and may London-based management consultancy PA Consulting, applica-

For instance, in the early 1990s PA performed dynamic simula- Sterman, "is exploding." tions for Mastercard, which ended up demonstrating that a nies have tried to use it and change."

stood to gain by consulting the interests of Exxon as a stake-

torth

holder. PA suggests another example, which broadens the concept of stakeholders to include competitors. in 1991, it claims, one of the big

value would be created by co-

branding: that is, the creation of

an Exxon Mastercard, and so

UK brewers adopted an aggressive strategy designed to take its market share from 23 per cent to 30 per cent by 2000. The result, its advisers told it, would be an increase in shareholder value of

Unfortunately, the other brewers reacted in kind. The result was a five-year price war that reduced the value of all of them. The brewer, PA argues, had failed to take account of the likely feedback.

This illustrates a general point: that to increase shareholder value on a consistent basis, it is not a good idea to grab value from other stakeholders. Not only does this create nega-

tive feedback, but it is also a finite strategy, since the whole even shrink.

dynamic simulation will increase. "This whole field," says Prof Granted, he says, some compa-

The real question, he says, is whether you regard the reaction In other words, shareholders of other stakeholders as exoge-

large amount of shareholder failed. But however complex the

nous: that is, as external to your "If you assume that competitive behaviour or price move-

ments are exogenous." he says. "you are in deep trouble. By assuming things are exogenous you exclude them from your

Prof Sterman takes the argument further, into the basic question of how companies are structured. There is a parallel, he argues, with aircraft design.

"You cannot imagine a company developing a new aircraft today without simulation. What's at stake when people manage a business is at least as big as when they go into an aircraft, but you don't see anything like the same effort going into it." In future, he says, people will

design organisational structures as they do sircraft. At present, managers are rather like pilots, struggling to keep the plane in the air in rough conditions. "It will become routine for

managers to have an organisamanagers will become organisational designers rather than

MANAGEMENT EXPATRIATES

New paths to global

The higher cost of foreign postings has led to shorter assignments, writes Alison Maitland

There was a time when an ambitious manager would expect to spend years in foreign parts, uprooting their families again and again for the mixed pleasures of an expatriate

Today a successful career with an international company is increasingly likely to consist of short-term projects overseas or managing cross-border tonns

More than 80 per cent of organsurvey to be published tomorrow by the UK's Rolfey Park Management Institute.

This compares with 71 per cent offering expatriate postings and about 40 per cent where managers run teams across several variables, you still have to try to countries.

One reason for the change is the high cost of foreign postings. British Petroleum, Motorola and Unilever, for example, are trimming their expatriate presence in China as business slows in Asia: and traditional home markets.

There are also longer-term motives linked to a desire to be truly international, says Geoff Rogers, head of human resources for global markets at Standard Chartered, the London-based international bank.

"The heart of our business is Asia. The Chinese business com-Chartered. We are probably better off having an Asian manager. working with local Asian bustnesamen, being closer to the customer, than an expairlate."

Ninety per cent of the bank's UK headquarters, and Singapore and Hong Kong rank with London in importance.

Chartered has nearly halved in the past decade from 800 to 420, a ers from at least six countries are trand that has accelerated in the sant on five-month placements in

tion which will perform well in | tool we want to use to run our end of their training, they must For a variety of reasons, say extreme weather and high global business," says Mr Rogers, make a presentation to top mantions are not as restricted as all the enthusiasts, the use of winds", he says. "More and more, who will speak at a Roffey Park" agement. seminar on international leader ship tomorrow. We should regard *Findings from the survey, of 850 pilots. And the whole nature of them as temporary workers, for Suropean managers, are and management education will example, to overcome a critical, from Caroline Giynn, tel UK skills shortage or to develop: (0)1293 851644

other managers, until we can

The bank's aim is to be "transnational", fulfilling customers' needs for seamless services operating across borders. Fewer than half its expatriates are British or American, compared with 95 per cent 10 years ago.

The increasing use of local managers is backed up by the survey's findings, in which 42 per cent of respondents say their organisations are pursuing this model in place of expatriates.

Western managers, often with working spouses, are increasingly reluctant to accept posts that involve uprooting their families, while the importance of the extended family in Asian countries leads to resistance there too isations now use short-term to leaving home for long periods, assignments, typically of three Standard Chartered must find Standard Chartered must find months to a year, according to a other ways to instill global thinking in its managers. It does this from graduate trainge level unwards, with up to 21 nationalities represented in the annual

> Trainees recruited in Singapore are sent to London, and vice versa, for a couple of months to learn the business and to hone

their interpersonal skills. Managers recruited into cross-border roles at a more senior level learn about global thinking and corporate culture as part of their induction. Selected groups attend the international manage ment programme at Insead.

Despite the rapid pace of globalisation, only 37 per cent of organisations with overseas operations offer managers international training of this kind, according to the survey.

More than belf the respondents munity is central to Standard say they would have welcomed extensive training in different cultural values - seen as the most common challenge facing international managers.

Another problem highlighted by the survey is companies' poor 25,000 employees work outside its use of international experience when managers return.

The car division of Volvo of Sweden is trying to overcome The number of expetriate maker this through its training proagers employed by Standard gramme for future top managers. Each year, 15 fast-track managpast year.

"I" other centres, meeting regularly
"The expatriate is now the last" to pool their experiences. At the



TECHNOLOGY WORTH WATCHING

Golden route to using nanoscale materials

Nanotechnology ~ the manipulation of matter on a near-atomic scale - holds out: the prospect of creating valuable materials, devices and manufacturing processes. But the ability to fabricate ordered structures on a nanometre scale is a huge technical challenge, which goes well beyond the current limits of lithographic

techniques.
A step towards this goal has been announced by researchers at the University of Liverpool in the UK. In today's Nature, the scientific journal, they describe gold nanocrystals of two sizes that spontaneously assemble themselves into complex two-dimensional arrays.

This suggests it may be possible to manipulate the composition and structure of nanoscale materials by simply adjusting the size ratios and relative proportions of their constituents. University of Liverpoor: UK, tel (0)1517945395; e-mail kiely@liv.ac.uk

Change of direction for satellites

Normally, satellites must move the entire mechanism beneath an antenna to change direction. experimenting with an adjustable antenna that would be able to make fine movements on its adjusted by applying a voltage to a piezoceramic material on the reflector. The ceramic would expand or contract, changing the shape and properties of the

replace three or four-traditional A CONTROL OF THE PARTY OF THE P

6142928486: http:// www.acs.ohio-state.edu/units/

A genetically engineered bacterium may provide an answer to the problem of and polyurethane factories. These are often contaminated produced by the breakdown of

the soil. Researchers at the Illinois Institute of Technology which consume DNT. litinois institute of Technology:

Airline fuel saver

Krupp VDM, part of the German industrial conglomerate, has developed a high-temperature alloy that could improve the fuel efficiency of aircraft engines. It estimates that a modern passenger aircraft using the material in its combustion chamber would cut its fuel :--

The material, called Nicrotan, can withstand temperatures of up to 900°C, at least 60°C higher than comparable materials. The combination of strength and temperature resistance was achieved by adding 8 per cent of tentalum to the alloy, which also contains chromium, aluminium and ytinum. The increased temperature

resistance of the alloy improves the engine's efficiency by reducing its need for cooling. Krupp: Germany, tel 2392 550; http://www.krubp.com

antennae on a satellite with one or two multifunctional antennas. Obio State University: US, tel

Cleaning bug

cleaning up land near explosives with DNT., a possible carcinogen

The problem with cleaning up DNT is that it requires oxygen, which is often scarce when the contamination extends deep into have got round this problem by splicing a gene for harmoglobin into bacteria called Burkholderia, US, http://www.iit.edu/

consumption by about 1 per

Vanessa Houlder

INTERVIEW KRISH PRABHU, ALCATEL USA PRESIDENT

Making skip-level connections

After the French group's share took a knock he took to the lunch table to help motivate the US-based workforce, writes David Owen

they are an important weapon in Krish Prabhu, recently appointed president of Alcatel USA, the group's US telecoms business.

management and you go to talk directly to the people," he explains. "Every opportunity I get I have lunch with 10-16 people, mainly engineers or people at that level ... I must have met 300 to 400 people in such meetings to date." You might think that Mr Pra-

bhu, whose principal office is in Dallas, would need all the skiplevel meetings he could muster, not to mention the motivational skills of Billy Graham, to inspire his mainly US-based workforce. Many employees joined Alcatel as a result of its takeover of DSC Communications, the US telecoms equipment company, in September in a stock-for-stock transaction.

Just 10 days after completing this deal, 'Alcatel's shares lost more than 38 per cent of their value in a single day following a profit warning.

Shock waves were sent through the French financial and political establishments. But it must have been particularly sobering for the 1,500 or so former DSC employees who have become owners of Alcatel options.

"Sure, they are disappointed, much like I'm disappointed," Mr Prabhu, 43, says in a meeting at Alcatel's Paris headquarters. "I still hold a lot of Alcatel options and a lot of them are in the water right now. So we always talk about that ... And then they say Oh yes, you probably lost more money than we did'. But I say Listen, I'm here because I enjoy this thing, I'm really excited about the team I have. And I'm really excited about this

fined to the building site. In fact, cent of what it was ... things the management armoury of least I wouldn't have to spend time during my lunches on these kind of questions. But people also market volatility. People "You skip several layers of also lost a lot of money on Monde, the daily newspaper,

"Skip-level meetings" game we are playing in'. stocks they held elsewhere."

might sound like the sort "Had the stock doubled instead Although they have perked up of get-together best con- of being closer to 40 or 60 per recently - closing at FF7740 on cent of what it was...things Tuesday, against a year's high of would have been far easier. At FFr1.425 - that autumn tumble was so elenificant that Alcatel. one of the bluest of French blue chips, last month suffered the French telecoms equipment realise that there was a lot of indignity of being pinpointed as a potential takeover target in Le



'Listen, I'm here because I enjoy this thing. I'm really excited about the team I have. And I'm really excited about this game we are playing in' along with several other house- shop" for customers. hold names.

concern to this University of transcend voice and data," he Pittsburgh and Indian Institute of says, Technology graduate. He has a lie acknowledges that Lucent leading role to play if the com- can legitimately claim to provide pany is to win back the confi- the same thing in the US, while dence of Anglo-US investors being "fairly weak" in other whose support will probably be countries. Cisco, however, "most

return to former levels. "I am of the firm opinion that when the share price is low and by Mr Prabhu's admission, the company is fairly big, a take- "somewhat weak" in the US. "In over attempt is fairly difficult," he says. "For two reasons. One, it has to be hostile - necessarily. the valuation is undervalued."

buy Alcatel, he argues, first, that Lucent "would have a really diffibusinesses" because there is such fairly short time". significant product overlap. "Lucent." he concludes, "is probably better off buying somebody who has maybe three-quarters of the channels that Alcatel does ingly dominated by Lucent, Norbut less of a product overlap".

As for Cisco, he thinks the two in terms of complementarity and overlap. "But Cisco is really a company that always buys small technology ... So I would again be very surprised if Cisco thinks the right thing for them going forward is to come after Alcatel." French group, which has negligible debt following a recent FFr13.7bn capital gain, to keep

We will continue to look at acquisitions as a means of rapidly catching up in areas that we are weak in," he says. "So these are necessarily technology-based acquisitions." On Alcatel's position with regard to its main competitors, he argues that one of the French

group's strengths, aided by such

pursuing acquisitions of its own.

strength really is that we can This appears not to be of undue bring complete solutions that

necessary if its share price is to definitely" cannot - "especially on the voice side". Alcatel, by contrast, remains, particular on the enterprise aide.

we are weak in the US." For all that, the DSC deal has And two, the management team nearly doubled the French is always going to feel...that group's US presence: the pro forma 1997 US revenue of the two Addressing the more specific groups was about \$3bn with the question of whether rivals purchase making the US Lucent and Cisco would want to Alcatel's largest telecoms bustone-fifth of sales. Mr Prabhu adds cult time, from a technology that he has targeted \$5bn revestandpoint, assimilating the two nue for the combined group "in a

Neither DSC nor Alcatel USA alone, he suggests, could have been quite the force they needed to be in a marketplace increastel and Cisco. Collectively, however - "if we can identify our companies are "not a bad model" strengths and weaknesses and pick the fights we want to fight with these three giants" - the combined group has a good companies and buys them for chance of coming out on ton over the long term.

In what at first glance is a surprising move, Mr Prabhu has also assumed responsibility for Japan Mr Prabbu clearly expects the among Alcatel's six-strong telecom executive committee - a development he explains in terms of the shape of Alcatel's and

DSC's respective businesses. "Alcatel has never been significantly placed in Japan," whereas DSC has been "very aggressive" and has a good business with the country's second operators. "So after the DSC acquisition, it made sense for Alcatel USA to have responsibility not just for the US but also for Japan."

Tokyo as well, it seems, may acquisitions, will be its ability to soon know the true meaning of provide what he calls a "one-stop the skip-level meeting.

CHERENCIES & MONEY

Heavy Dow hits Europe's mood

EUROPEAN OVERVIEW By Philip Coggan, Markets Editor

weighed on sentiment. The Dow Jones Industrial news from Boeing knocked auto. the market. That prompted an initial rally on European index fell 28.94 or 1.1 per bourses to fizzle out.

down the dollar and the 9.69 to 1,096.61. The FTSE weakness of the US currency Ebloc 100, comprising stocks

proved to be bad news for in countries which will be healthcare sector also lost European shares, as usual, part of the single currency per cent. particularly in the export

Rumours that the Bundesthree sessions as another pean interest rates were offweak opening on Wall Street set by a preliminary forecast of European growth for 1999 from the European Central Bank of 2.5 per cent. The points down in early trading forecast looks rather high to oil sector was one of the as Tuesday's late gloomy be permitting interest rate day's worst, dropping 3 per

The FTSE Eurotop 100 cent to 2,354.58, while the The Dow also dragged broader Eurotop 300 dipped

1 3 8 7 10 15 20 30

Bond yield curve Per cent (December 2 1998) zone next month, dropped 12.53 to 911.1.

reacted unfavourably to the to Ecu 582.64. price it agreed to pay for the Belgian company PetroFina Smith Barney show Octoon Tuesday. Total shares fell Ecu 4.30 to Ecu 89.77 and the

volatile Nycomed Amersham

The weaker dollar weighe on auto stocks and BMW There was another sharp shares also took a hit from European stock markets bank might make a pre- tall in the shares of French the departure of Rover's extended their losing run to emptive strike to cut Euro- oil group Total as investors chairman, sliding Ecu 32.60 chairman, sliding Ecu 32.60

Figures from Salomon pean private investors to dig their toes into equities.

The net inflow into Euro pean equity mutual funds A fall in the traditionally over the month was \$2bn. - down Ecu 0.20 at Ecu 5.21 \$500m in September. Salo

| - linked to va | | | | | | den was |
|--|--------------------|----------------|------------------|---------------------|----------------|--------------------|
| might fall out | | | | | | th a net |
| 100 index mea | | | | v in Oc | | |
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| FTSE Actuar | ioc Sh | ara Inc | linge | 15 | uronna | n series |
| Produced in conju | | | | | | |
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| 200 | | | | | | |
| ment & fights | Ecu | Day's | change | Yield | ad adj | Total rate |
| Markets | lodex | % | points | gross % | ytd | (E21) |
| FTSE Eurotop 300 | 1096.61 | -0.88 | -9.69 | 2.51 | 24,96 | 1128.62 |
| FTSE Eurolop 100 | 2534.58 | -1.13 | -28.94 -12.53 | 2.53 2.32 | 38.81 | 908.08 |
| FTSE Ebioc 100 FTSE EuroMid | 911.10 1093.45 | -0.51 | -12.01 | 3.02 | 14,94 | 924.71 1131.71 |
| FTSE Eurobild Ebloc | 1152.33 | -0.49 | -5.67 | 2.56 | 0.02 | 1176.19 |
| FTSE Eurolood Ex UK | 1146.72 | -0.39 | -4.0 | 245 | 0.02 | 1167.56 |
| FTSE Eurotea 300 Regio | 119 | | | | | |
| Eurobioc | 1144,84 | -1.18 | -13,81 | 2.20 | 21.56 | 1169.22 |
| UK | 1019.26 | -0.57 | -5.24 -5.89 | 3.00 2.83 | 34.00 | 1068.80 |
| Europe Ex-Eurobiae Europe Ex-UK | 1058.34 1141.34 | -0.53 -1.66 | -5.89 -12.16 | 2.83 2.26 | 27.23 19.91 | 1162.60 |
| FTSE Eurolop Industry S | | | -1619 | | 1997 | 110200 |
| RESOURCES | | 200 | -29.96 | 9.44 | 50.00 | 000 00 |
| | 828.45 | -2.81 | | 3.44 | 29.22 | 866.33 |
| Extractive Industries Oil, Integrated | 751.04 800.18 | +0.41 | +3.07 | 4.57 3.38 | 14.54 21.73 | 766.90 819.53 |
| REMERAL PROUSTRIES | 1001.69 | -1.10 | -11,13 | 2.75 | 21.29 | 1022.B5 |
| | | | | | | |
| Construction Section Mass & Marcha | 868.82 852,31 | -0.75 -0.79 | -6.57 -6.76 | 3.18 2.83 | 11.06 8.96 | 678.93 859.67 |
| Charles and a service | 802.35 | -1.30 | -10.54 | 3.02 | 17.45 | 816.52 |
| Diversided Industrials | 889.97 | -1.03 | -17.43 | 2.67 | 22.61 | 910.33 |
| Becamic & Bed Bady | 902.34 | -0.21 | -1.91 | 1.84 | 5,41 | 907.28 |
| Engineering Paper, Policy & Printing | 812.81 777.08 | -0.80 -1.80 | -5.39 -15.02 | 4.10 3.00 | 12.32 1.21 | 823.33 778.04 |
| CONSUMER GOODS | 1128.85 | -0.39 | -4.44 | 1.55 | 18.33 | 1159.67 |
| | | | | | | |
| Autopobiles Alcoholic Beverages | 852.99 871.52 | -2.02 -0.34 | -17.第 -3.01 | 2.86 3.05 | 10.25 17,53 | 860.90 890.15 |
| Food Producers | 909.83 | -7.21 | -11.18 | 1.88 | 11.84 | 920.53 |
| Household Goods & Texts | 967.57 | -1.73 | -17.04 | 1.96 | 8.94 | 875.63 |
| Healthcare | 824.70 | -3.04 | -5.M | 1.41 | 13.51 | 837.03 |
| Pheroscoulicals Tobacco | 1012.57 1274.25 | +0.17 -1.13 | +1.70 -14.57 | 1.27 4.00 | 5.27 15.88 | 1018.37 1291.80 |
| REMINICES | 1103.50 | -0.80 | -8.94 | 2.14 | 23.04 | |
| | | | | | | 1134.31 |
| Distribution Leisure & Hotels | 750.50 744.63 | +0.42 -0.17 | +3.15 -1.26 | 2.90 3.43 | 11.37 | 759.90 754.37 |
| Meda | 931.84 | -1.25 | -11.80 | 2.37 | 10.66 | \ 941.58 |
| Retailers, Food | 989.22 | -1.09 | -10.88 | 2.06 | 15.00 | 1004.33 |
| Retailers, General | 913.41 | -1.83 | -17.02 | 3.41 | 20.46 | 937.25 |
| Teleconomications Braveries, Pubs & Resta | 1040.20 766.08 | -0.87 +0.26 | -7.07 +1.97 | 1.88 3.47 | 13.52 | 1053.33 |
| Support Services | 900.80 | +0.25 -1.53 | -14.02 | 1.63 | 18.00 9.87 | 779,81 910,15 |
| Transport | 826.71 | -0.30 | -2.77 | 2.66 | 18,24 | 943.80 |
| information Technology | 848.96 | +0.57 | +8.63 | 0.43 | 2.33 | 850.98 |
| THE THE | 1418.08 | -0.16 | -2.20 | 3.11 | 60.30 | 1502.15 |
| Beckittly | 1085.35 | +0.02 | +0.18 | 3.29 | 30.43 | 1087.97 |
| Bas Distribution | 1171.11 | -0.14 | -1.64 | 1.86 | -83,52 | 1289,46 |
| Trailer . | 1001.73 | -1,24 | -12.60 | 5.04 | 44.83 | 1046.01 |
| PHANCIALS | 1175.08 | -0.57 | -7,97 | 2.79 | 27.M | 1205.78 |
| Basics, Roball | 806,78 | -0.80 | -6.51 | 3.62 | 13.20 | 819.67 |

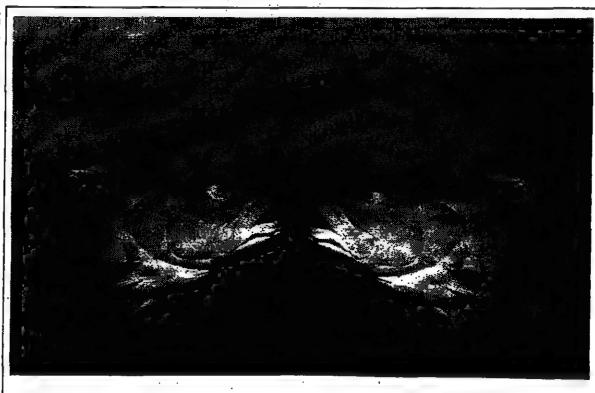
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| s, Retail | 806.78 | -0,80 | -6.51 | 3.62 | 13.20 | 819.67 | • |
| 100 | 918.40 | -0.73 | -6.71 | 1.51 | 11.79 | 929,48 | |
| | 1079.67 | +0.07 | +0.75 | 1.80 | 12.95 | 1093.89 | |
| Financial | 836.87 | +0.26 | +2.33 | 231 | 15.96 | 880.84 | |
| iment Companies | 949.95 | -0.29 | -2.79 | 2.72 | 20.66 | 967.74 | |
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| ngapore | SCD | 1.965762 | +0.0093 | +0.47 | +0.0483 | +2.52 | Spela | 85,0722 | 85.1106 | +0.05 | +0.00 | 65.1062 | 3.72 | +0.00 |
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| | 3.40 3.48 | 351 | 3.49 | 3.53 | 540 | LAG | 5.01 | 5.04 | 0.54 | 0.07 | Belgium (Kingdom of | | 1.750 | N/A | 111,880 | 4.18 | -0.01 | -0.30 | W0.11 |
| | 3.61 | 3.84 | 3.61 | 3.66 | 5.76 | 5.80 | 5.07 | 5.10 | 0.77 | 08:0 | France (Rep of) | 04/08 | 5.250 | AAA | 109,790 | 3,96 | -0/10 | -0.29 | -0.09 |
| | 3.76 | 3.79 | 3.76 | 3.80 | 5.69 | 5,73 | 5.13 | 5.16 | 0.82 | 0.95 | baily (Rep of) | 05/06 | 5.000 | AA | 106.780 | 4,12 | -0.04 | -0.= | +0.05 |
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| r | 4,17 | 4.20 | 4.17 | 4.21 | .53 | 3.57 | 5.31 | 5,34 | 1.33 | 1.36 | Alabory Heat! Trease 9ry | 02/03 | 4.876 | AA | 104.250 | 3.76 | -0.04 | -0.21 | +0.11 |
| r . | 4.27 | 4.30 | 4.27 | 4.31 | 5.52 | 5.66 | 5.37 | 5.40 | 1.45 | 1.49 | Gen Electric Cap Crp | 1004 | 5.500 | AAA | 108.650 | 3.81 | -0.00 | -0.27 | +0.13 |
| ME. | 4.35 | 4.38 | 4.35 | 4,38 | 1,51 | 1.55 | 5.43 | 5.46 | 1.58 | 1.81 | Dest Kontrollbank | 04/08 | 5.250 | AAA | 107,790 | 4.22 | -0.01 | -0.31 | +0.15 |
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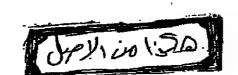
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Who is prepared for the single currency?

Earlier this year, the Stockholm Stock Exchange and the euro threatens to polarise existing divisions between the big exporters. Tim Burt finds widely differing attitudes to the announced with a fanfare and the smallest manufacturers. Tim Burt finds widely differing attitudes to the would be able to list in euro from January 1999 - even though Sweden would be abstaining from the single currency.

So far, not a single company has taken up the offer, preferring instead to retain their share price in krona.

"It is a little surprising for us," says Hans Edenhammar, a senior official at the Stockholm bourse. "Perhaps the euro is not such a big issue for Swedish companies as we thought."

Certainly, some executives economy remain deeply ambivalent towards European economic and monetary union, and there is no obvious appetite among small investors for euro-denominated stock.

Suspicion of the single currency is, however, far from

Indeed, the onset of the euro threatens to polarise existing divisions in Swedish industry, exposing the growing gulf between the country's largest exporters such as Ericsson, the tele- the single currency. Among communications giant, and employers with less than 30

that Swedish companies currency, from those actively preparing for it and those devoting little or no time to it - and the smallest manufac- need to devote any manage- believe the Swedish govern- of medium-size companies

> A new survey by KPMG Bohlins, the Swedish arm of the UK accountancy firm. highlights the differing attitudes to the euro.

As expected, corporations with large sales in the eurozone have appointed internal taskforces to deal with the problems of adjusting to the new currency. Many of them have technical experts to deal with currency-related problems - mainly in infor in Scandinavia's largest mation technology. And some have drawn up detailed strategies on how to manage the balancing act of serving euro-zone customers, while remaining outside it

> Moreover, those big companies with share listings in Frankfurt or Paris - such as Bricsson - will be quoted in euro. on those exchanges. even if they have rejected. the idea in Stockholm.

Sweden's smaller companies are far less prepared for

ment time to euro budgets or ment's wait-and-see with small but growing over-

approach to Emu mesus the seas sales. Arguably, that Of greater concern, per- country will be unlikely to haps, the KPMG survey join the euro before 2002, found some large groups and only then with the backwere equally diffident. Over ing of a referendum. 20 per cent of companies Whether real or imagined,

We will be changing over to the single currency for all our purchasing within the euro area next year'

Lars I. Persson, Volvo

employing more than 200 staff had no euro strategy, and only 4 per cent had set for their own accounting aside any funds to cover potential problems.

Sweden to join the euro, but relatively few are actively preparing for it," says Göran Virden, Emu co-ordinator at KPMG Bohlins.

There are two main reasons behind the euro inertia. at least among small compa-

breathing space before the euro will affect their busi-

The big contradiction is KPMG survey underline the that almost all the companies in the survey are trging rate Sweden. The country domestically oriented small companies - which do not see the euro as a threat. It international corporations which are actively preparing for the new currency.

sector would be hardest hit by rivals inside the eurozone gaining the benefits of currency stability and reduced transaction costs.

In the absence of a middlerank business sector it has name manufacturers and financial services groups to lead commercial preparations for the euro.

Volvo, Ericason, SKF, the Svenska Handelsbanken Sweden's largest bank, and SEB, the Swedish bank, to name a few, have devoted hundreds of man-hours to the euro.

euro-zone countries for 22 per cent of its SKr170bn (£12.7bn) turnover, has spent project. In the past 12 months its preparations have gathered pace, with its Dutch subsidiary piloting euro transactions from ini-

tial orders to final invoices. We found that 75 per cent

IT related," according to Ann Westergren, director of

At each stage of the Dutch pilot project, the executives involved briefed other Erics adapt the model to different parts of the organisation.

Volvo, by comparison, has spent about a year preparing its treasury and purchasing organisation for the single Given that Volvo will rely

on the euro-zone for about a third of its SKr184bn annual revenues, it could achieve significant cost-savings by exploiting the single cur

rency. Lars I. Persson, head of Volvo's euro preparations, estimates initial savings on nurchasing of SKr100m following the euro launch.

"We will be changing over to the single currency for all our purchasing within the Mr Persson, who has briefed 300 senior executives on potential synergy benefits

Sweden's largest manufacturers have been matched by No plans to form

Swedish companies and EMU

Do not need

Skandinaviska Enskilda financial institutions and Banken. It has invested heavily in new IT systems to bandle euro payments and clearing. From next year, the furt subsidiary to access the Target clearing system.

"It is a highly competitive the same payments system as banks in the euro-zone." says Per Jederfors, SEB's head of group staff (Emu). All that activity reflects

manufacturers. By demonstrating their readiness for the single currency, they hope to create a trickle-down number of their customers and suppliers also embrace

The underlying but rarely stated ambition is for corporate Sweden to show politigrowing euro enthusiasm ful commercial tool and not

Disharmony ahead on value added tax



A manager's guide to

The good thing about the launch of the euro is that it has got nothing to do with tex. All this talk about tex harmonisation comes long after January 1 - correct? In theory - but in practice it will have a lot to do with tax and particularly Value Added Tax. Any business which does not at least review its VAT position before January 1 would be one step behind its competitors.

At the moment rates of VAT very considerably within the European Union. All the states have VAT. There is an acceptable EU band of 15 per cent and 25 per cent. The so-called reduced rate la supposed to lie between 5 per cent and 9 per cent — :: although some countries -have secured politically sensitive zero-rated items. So what changes on

January 1? Quite a lot for consumers the ones who ultimately pay VAT. The euro will bring price transparency within the EU. Or at least it will appear to clear away the confusions of exchange rate differences. It will become obvious to . consumers where VAT bites. it may leave consumers assuming that any price differences left are entirely due to tax - which will not always be the case. "The general effect will be to expose the impact of tax which could well be a catalyst for convergence, says Graeme Ross, VAT expert with KPMG.

What will consumers notice first? They'll begin to take much more notice of manufacturing and service prices within the EU. Take Cos. in Germany they attract 16 per cent VAT whereas across the border in Denmark the tax is levied at 25 per cent. Businesses will have to think about their pricing structures as a result. Consumers will think about tax shopping. Pressure is likely to build up within the EU to harmonise VAT to

to harmonise VAT within the EU? Yes. In 1992 EU states entered the transitional regime for VAT. Fiscal borders for VAT were removed while convergence was supposed to start. By 2001 we were theoretically supposed to be ready for a single market within which every business could treat Europe as its home country. But despite pressure from Brussels progress has been

simplify matters. Isn't there already a plan

How would you pay VAT under the system envisaged for the EU? The finished single VAT regime is supposed to be based on the "origin system". In other words, if you are in Rome and you have a customer in Milan and another in Frankfurtthen both pay VAT at the Italian rate to Rome. What system do we have at the moment? At the moment we have the

opposite system for business-to-business transactions. This is the "destination system" - the tex is paid at the rate charged in the country of goods go direct to a consumer we use the origin system - unless the value is more than Ecu70.000 (£49,210) when it shifts back to the destination system. So will the introduction of the euro hasten the

It may. But there's a danger that it could be introduced bufore VAT rates are harmonised. And that could lead to-massive tex . -- -shopping and major disruption of the normal pattern of manufacturing. Imagine what would happen differential tax rates survived the introduction of an origin

Not in a treat the that theoretical. There's no real impact on businesses from day one. Yes there is. The problem is

that VAT depends on a massive sales and purchasing systems. Some participating countries are not yet ready to accept VAT data in euros - even when all commercial transactions are going to be conducted: in them. Germany is a case in point. According to the Ministry of Finance the tax authorities' IT systems are not ready for the euro so D-Marks. And the problems continue inside the EU even for countries outside the

suro-zone. The UK tax authorities are treating the euro as just another foreign currency. Even returns of business dealing entirely in euros would also have to be So I may need dual systems for the sure and

domestic currency for VAT

Yes. And invoices during the vear. Which means systems will have to be connected in exchange rates for non-participating currencies. There could be a considerable VAT

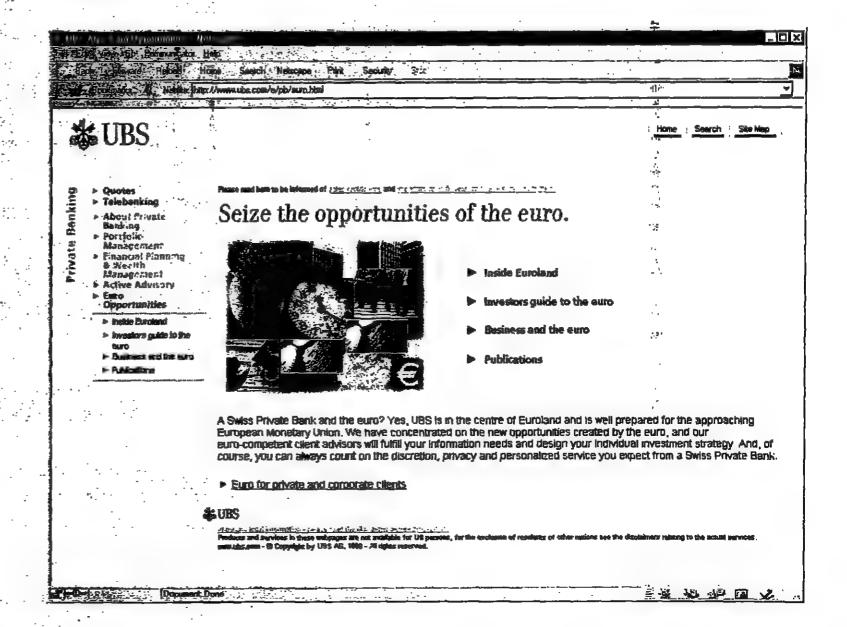
compliance burden as a Anything else to worry about7 Well there is e-commerce. The world's tax authorities

are positioning themselves

to take a common stance on

how to tax the internet they just can't agree what it is. At the moment : transactions done by e-commerce will be taxed in the same way as any current transaction. If VAT is harmonised the EU will need to take a common stance. The problem is that the delivery of digitised products through the internet will demand a solution sooner rather than later. The real problem for the EU is dealing with products such as on-line books and CDs coming into the EU on a tax tree basis. That could represent a real threat to EU businesses unless effective policing or tax co-operation is up and running.

What managers should know about the euro is just a mouse click awar. www.ubs.com/pbeuro



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Indonesian groups start buying debt

Indonesian companies are starting to buy back their ting their losses on derivadebt or swap it for equity, tive deals such as dollar ia's \$80bn private debt overhang will gradually shrink.

Asia Pulp & Paper, a subsidiary of the Sinar Mas group, said the Widjaja family, which owns Sinar Mas, had recently bought back AP&P's separate holding company. The family paid \$600 each for \$1,000 bonds

that mature in 2000. The move has raised expectations that more banks will start cutting their sign up for a governmentlosses before the end of the

producer with more than \$2bn in debt, said it would use \$70m in proceeds from a subsidiary sale to buy back bonds. Traders said the first buyers of distressed bonds are likely to be the debtors shore and avoid bankruptcy.

"It makes commercial sense," said Ian Clyne, at ING Barings in Jakarta. "And it facilitates debt restructuring, because it takes out bond-holders and leaves the regular banks."

Didi Dermawan, a lawyer active in restructuring, said stand-still agreements between creditors and debtors would make it more difficult for debtors to buy back their own debt, as creditors would demand a say on important business decisions. He added that owners could still do so if they used

While banks have held on to their share of syndicated loans, some have started cutswaps. Many settle with their Indonesian counterpart

directly at discounts of up to 95 per cent. They are willing to take such cuts in part because a new bankruptcy court has so far failed to deliver, declarabout a third of the \$245m in ing only three bankruptcies outstanding bonds issued by and issuing three controversial rejections. Only 17 suits have been filed since the

court opened in September. Bankers say the failure of the court helps explain why debtors feel little need to sponsored rescheduling framework, which would Astra International, a car insure against foreign exchange risks but require

high initial payments. Fifty-two companies with total debt of \$7bn had appealed to a separate government task-force, set up to intermediate debt talks, but themselves, many of whom bankers suspect the task-managed to transfer cash offsubstantive negotiations. Also, a number of compa

nies are issuing convertible bonds to creditors in expectation of changes in the law. The recent strengthening of the rupiah, from Rp17,000 per dollar to Rp7,500, has provided relief to corporate

Indonesia's central bank in January estimated private debt at \$87,7bn and government debt, including state enterprises, at \$85bn. Some \$32bn would mature this year. Bankers put the figure closer to \$80bn, as many bonds, commercial paper

US Treasuries lead gains

GOVERNMENT BONDS

By Arkady Ostrovsky in Landon and John Labate in New York

income markets over equi-

Oil prices also continued to fall, taking even more pressure off inflation in Europe and the US and view that the European Central Bank might be in the mood to cut interest rates

But the oil price decline, to a fresh low of \$10.15 a barrel, was bad news for some emerging markets heavily

US Treasuries led the gains as the stock market Prices closed higher was hit by a morning of yesterday as investors con- widespread selling. By early tinued to favour fixed- afternoon the 30-year long bond, the benchmark for US ties, which remained weak interest rates, was & higher as profit-taking continued. at 103%, sending the yield down to 5.015 per cent.

Shorter-term issues also gained ground, with the 10-year note 🖫 higher at potentially supporting the 1012, yielding 4.541 per cent. and the two-year note up 1 to 100 per

Earlier, European markets had moved ahead across the board as investors continued to mull over comments by Wim Duisenberg, president higher. The December future

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Deutsche Bank Finance NV‡ Vattenfalt Tressury AB

dependent on oil exports, of the ECB, earlier this week on the benchmark 10-year and emerging market debt that some analysts bund, which expires next prices fell in response.

Suggested signalled interest week, rose 0.36 to close at rates were on the way down.

However, with some Emu countries, including Italy and Ireland, still needing to bring their domestic rates into line with the convergence target of 3.3 per cent, the ECB's room for manoeuvre may be limited.

Phyllis Reed at Barclays Capital said Mr Duisenberg's view that "downside risks continue to exist" in the core economies suggested the ECB could set the convergence interest rate for the euro-zone countries at 3 per cent, effectively implement-

ing a 30 basis point cut. German bunds were

114.89, while the March contract closed at 115.70, up 0.46. But trading was not heavy with more activity in the cash market, where profittaking continued at the very long end of the curve.

Other European markets saw little activity. Stephen King, economist at HSBC. argued that a switch from relatively illiquid European bond markets into bunds would be one of the main features of Europe's bond markets after the arrival of the euro next mouth.

UK gilts were also mildly stronger, with the March

Sovereign issuers seek guarantees

A growing number of Asian sovereign borrowers are applying for supranational and developed country guarantees as a more costeffective route to the global debt markets, which have become increasingly expensive in the past 18 months.

This week it emerged that Japan's Ministry of Trade and Industry is to guarantre Y70bn bond for Thailand. It would be Miti's second guarantee of a proposed bond issue by a south-east Asian casualty of the regional financial crisis.

The Asian crisis followed by the Russian debt default in August provoked fears of global financial contraction and sidelined emerging market borrowers as the cost of borrowing soared.

Guarantees by supranacredit rating on the offering. enabling borrowers to piggyback on the supranationals' Triple A credit ratings.

This makes borrowing more affordable for emerging market sovereigns desperate to raise financing to service rising budget deficits, resume work on infrastructure projects and overhaul heavily indebted domestic banking systems.

The World Bank set the pace in September with a guarantee for a \$300m bond for state-owned Electricity Generating Authority of Thailand.

In October, Malaysia. whose introduction of capital controls effectively cut it off from global markets, said a proposed \$1bn bond would be guaranteed by Miti.

Thailand's proposed Y70m bond, possibly of 10-year maturity and lead-man by Citicorp. is likely to be launched in January. Miti's guarantee of the bond is part of the Missaswa

Plan, which is designed to help distressed south-sast Asian economies. The Asian Developme Bank said it was negotiati financing for India and the Philippines' state-owned

be guaranteed by the multilateral bank. The ADB said guarantees are the most effective way for emerging markets in access international capital markets.

power company that would

"Asian sovereign borrowers want long-term financing for infrastructure. They cannot get that sort of maturity from the markets. It is our role to provide guarantees. tionals such as the World said W. C. Chung at ADB's Bank effectively enhance the office of co-financing operations. He added that since the regional crisis there had "been strong emand for guarantees".

For India, the ADB is negotiating a 15-year \$100m financing, which may be. either a syndicated loan or a bond but will be guaranteed by the bank. Completion has been delayed because some international sanctions remain in place after India's testing of nuclear bombs last

The ADB is also talking to the National Power Corporation about a financing of upto \$200m, which would also be guaranteed. The development bank's first guarantee since the Asian crisis was for Thailand's \$950m syndicated loan, which was launched in February.

77.80

BNG taps demand for euros New international band issues

INTERNATIONAL BONDS By Khozem Marchani

BNG, the Dutch public sector lender, yesterday launched a Elbn bond, its issue, to capture growing demand for the currency before monetary union.

The European Investment Bank also launched a Elbn bond, although it was able to launch it at a much tighter yield spread than the BNG

BNG, the largest Dutch issued a 10-year bond, its first in this maturity, priced at 29 basis points over the Ecu-OAT curve.

EIB's bond, of the same

maturity, was priced at eight

basis points over the Ecu-

OAT curve. Both bonds were

trading at their re-offer price in the secondary market. BNG lends mostly to domestic housing associations and other public utilities. Yesterday's issue is part

borrower after the sovereign, of its Fl 50bn medium-term borrowing programme, under which Fl 38bn has been drawn. BNG expects to raise E8bn to E10bn in 1999, of which 50 per cent will be raised in straight euro-

> Japanese investors, keen to expand euro-denominated holdings, picked up 18 per cent of the ticket. BNG is a familiar name in Japan, where it has tapped the domestic capital market.

denominated paper.

the bulk of the issue, ABN Amro, Goldman Sachs and Warburg Dillon Read were the joint lead arrangers.

Deutsche Bank issued

\$500m of five-year floatingbasis points, following its taksover of Bankers Trust. There was concern in the market that Deutsche would fund the transaction entirely terday's deal suggests a commercial banking group.

European investors bought more balanced programme including an equity issue, to The convertible bond mar-

ket is in sound condition after a several large deals in recent days. Mediobanca, the rate notes at Libor plus 12 Italian investment bank, added to the flow of issuance, raising nearly L1,200bn in a two-tranche issue, jointly led with Goldman Sachs, exchangeable into the in the bond markets so yes- shares of Unicredito, the

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| Denmark | | .25 +0.3 | | | | 4.29 | +0.40 | -0.3 |
| Finland | | 21 +0.3 | | | and | 2.45 | -1.44 | -21 |
| France | | .98 +0.09 .89 - | 9 -0.6 0.7 | | | 4 54 | 40.75 | +0.0 |
| Germany | | .18 +11.21 | | | | 4.59 | +0.70 | |
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| Jenau Hená | | 20 -26 | | - 2000 | | patairt seta en York da | | |
| Netherlands | | .01 +0 1: | | | anasani sa Siwasid bas | | sang. | |
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| Deg Z | date | Coupo | Railing | price | yield | VICE | yld | US |
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| Creatia | 02/02 | 7.000 | B88- | 89,7132 | 10.86 | +0.11 | -1.88 | +6.57 |
| Poland | 07/04 | 7 125 | 888- | 103,3005 | 6.39 | +0.03 | +014 | +2.01 |
| Russie | 06/07 | Va.008 | CCC- | 27 1250 | 41 43 | -0.47 | -2.73 | +36.89 |
| III LATTH AN | | | | | | | | |
| Argentina | 09/27 | 9.750 | 89 | 88.3120 | 11 10 | -0.61 | +0 08 | +6 10 |
| 1510 | 05/27 | 10 125 | 88- | 71,7500 | 14.22 | +0.29 | -0.36 | +9.22 |
| Meroco | 05/26 | 11,500 | 88 | 104,5000 | 10.96 | +0.11 | +0 04 | +6.00 |
| ASA III | | | | | | | | |
| China. | 07/06 | 7.750 | BBB+ | 103.4768 | 7.13 | -0.04 | +0.80 | +2.64 |
| Philippines. | 10/16 | 8.750 | 88+ | 92,0708 | 9.69 | +0.11 | -0.53 | +4.93 |
| Thailand | (14/07 | 7 750 | 888- | 96.0200 | 8.42 | -023 | -0.99 | +3.89 |
| M APPEARE | MOLE 8 | MIT | | | | | | |
| Lebanon | 07/00 | 9.125 | 88- | 102,6240 | 7.32 | -0.11 | +0.74 | +2.94 |
| South Aldca | 10/06 | 8.375 | B8+ | 87.4285 | 10.82 | +0.11 | +0.32 | 15.30 |
| Turkey | 09/07 | 10.000 | В | 93,5000 | 11.18 | -0.20 | -1 74 | +6.64 |
| | 200 | | | | | | | |
| Arnentina. | 03/23 | 5 730 | BB | 72,1350 | 8.79 | +0 04 | -0.22 | +3.88 |
| | | 5,000 | 68- | 63.6250 | 13.04 | €0.13 | -0.18 | +8.32 |
| Brazil | 84714 | | | | | | | |
| Brazil Mexico | 04/14 12/19 03/26 | 6.250 6.750 | HB B+ | 76.5155 | 1.70 | -0.02 | -41.09 | +3.87 |

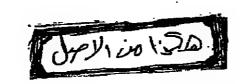
| F(M)(Se | | | | TIONS | , | | |
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| T. SHEWAY | | | | | | | |
| MOTEO | NAL PRISICH A | | ED (MATTE) | FF:500,00 | 9 | | |
| | Open | Sett price | Change | High | Low | Est. vol. | Open int |
| Dec | 108.25 | 111.27 | -0.06 | 711.40 | 110.94 | 50,910 | 69,389 |
| | TETAL PRESIDE | | OS HALL | 4 | | | |
| Strike | _ | CMI | | | | Pilits — | |
| Price | Jan | My | ř | | Jan . | Mar | - |
| 100 | 2.73 | | | - | 0.02 | 0.30 | • |
| 100 110 | 1.80 0.96 | | | - | 0.08 0.24 | 0.49 0.78 | • |
| 111 | 0.41 | | | - | 0.69 | 1.22 | - |
| bit. wil. total | l, Calls 1972 Pole | · . Province, de | ik,e adem gal" | Cale #4 1 | Want. | | |
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| - pro (100 | Coen | Sett orice | Change | High | Low | Bat. voi | Open ist. |
| Dec | 114.58 | 114.89 | +0.35 | 114.98 | 114.46 | 309,862 | 444.327 |
| | 115.01 | 115.57 | +0.46 | 115.64 | 115.01 | 84.185 | 115,622 |
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| Sirile | | - cut | _ | | | 7675 — | |
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| 11500 11650 | 0.77 | 1,08 | | 25 | 0.38 | 0.85 0.89 | 0.88 |
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| | 0.50 0.30 | 0.90 0.58 | | 03 B1 | 0.69 0.89 | | 1.12 |
| 1600 | | 0.58 | a. | n | 0.89 | 1.17 | 1,40 |
| 1800 St. vol. bis | 0.30 | 0.58 I. Previous day | O. 's open ini., | Di Carina di Puni | 0.89 | 1.17 | 1,40 |
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| 100.101 | AL CINEDO | BOYT, BORD | | MES (LITTE | LIRE 200m | 1000ms or | 100% |
|--|--|--|---|-------------------|------------------------|--------------|-----------------------------------|
| | Open | Sell print | Change | High | Low | EK W | Cheu # |
| Dec | 11 <u>2.5</u> 0 | 112.54 | -0.03 | 112,67 | 112.22 | 37054 | 33534 |
| Mar | 112.66 | 112.96 | +0.10 | 113.27 | 112.57 | 22682 | 2230 |
| II ITALIAK | OOYT, BÓW | (877) FUT | WES OFTE | WIS (UPPE) | Line200m 10 | 10ths of 100 | % |
| Strike. | | - CAL | | | | PUTS - | |
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| 1250 | | LER . | 0.95 | | 0.20 | | 0.47 |
| 11250 | d | .39 | 0.68 | | 0.41 | | 0.70 |
| 11250 11300 11350 | d | 1.39 (10 | 0.68 | can e Ro | 0.41 0.71 | | |
| 11250 11300 11350 | d | 1.39 (10 | 0.68 | , Culle d Rob | 0.41 0.71 | | 0.70 |
| 11250 11300 11350 11350 In. vol. latel | d | 1.39 (10 | 0.68 | , Calle d Pala | 0.41 0.71 | | 0.70 |
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| 11250 11300 11350 In. vol. latel Specify on marriage | Cale o Puin SPANSIO Open 116.37 | CID C. Provious de COMO PUSTUS Sett price 116.45 | 0.68 0.40 4/2 open int. (25 exc2+1) Change +0.01 | High 116.52 | 0.41 0.71 7 5080 | | 0.70 0.86 Open 10 |
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| 11250 11300 11350 Isa. vol. latal Specifi Isa. vol. latal | Cale o Puin SPANSIO Open 116.37 | CID C. Provious de COMO PUSTUS Sett price 116.45 | 0.68 0.40 4/2 open int. (25 exc2+1) Change +0.01 | High 116.52 | 0,41 0,71 2,8000 | 40,487 | 0.70 0.86 Open to 51,388 |

| Mar | 115 69 | 115.70 | +0.01 | 115.70 | 115.69 | 129 | 61,3 56 111 |
|------------|--------------------------|-----------------|----------------------|-----------------|---------------|-------------------|-----------------------|
| UK | | | | | | | |
| | NAL 5 YEAR G | ILT FUTURE | (LIFFE) ST | 00,000 10 | Otos of 100% | | |
| | Open | Sett price | Change | High | Low | Est. voi | Open int. |
| Dec | 108.75 | 108.92 | +0.23 | 108.75 | 108.75 | 20 | 325 |
| Mar | - | 109,12 | +0.23 | • | • | 0 | 76 |
| E NOTICE | NAL UK GILT F | CHORRES (UF | ££)" £100, | 000 100gs | of 100% | | |
| | Open | Close | Change | High | LOW | ESL WA | Open int. |
| Dec | 117.20 | 117.33 | +0.02 | 117.55 | 117,00 | 2320 | 11790 |
| Mar | 117.34 | 117.45 | +0.03 | 117.68 | 117,10 | 33251 | 108816 |
| | area also tracado | | | | | | |
| | GELT FUTURES | OPTIQUES (L | FFFE) £100, | 000 100ths | of 100% | | |
| Stre | | Cal | <u> </u> | | | PUTS - | |
| Price | nii | Fe | b 1 | Mar | Jan | Feb | Mar |
| 11700 | 1,00 | 1,4 | | .74 | 0.55 | 0.96 | 1.29 |
| 1175 | 0.73 | 1.19 | | .48 | 0.78 | 1.20 | 1.53 |
| 11800 | 0.52 | 0,9 | | 25 | 1.07 | 1,47 | 1,80 |
| ESL 19L to | al, C ath 320 Pub | s 500 Plenigu | e day's oper | 1 M., Calls (| 1408 Pals 276 | 7 | |
| US TE | | | | | | | |
| | EASURY BOND | PUTURES (C | BLU 2100'0 | 00 32nds 0 | 100% | | |
| M (2) 110 | Open | FUTURES (C | ET) 5100,0 Change | 22nds o High | 100% Low | Bi. et | Open int. |
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| | - | 129-13 | -10-09 | 130-06 | 129-25 129-05 | 393,643 846 | 517,21 4,278 |
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| HOTHICH | EAL LONG TE | DA TALANES | E GOVT. B | ONED POTTUR | 25 (JFFE) Y | 100m 100th | of 1009 |
| | Opez | Sett prace | Change | High | LOW | Est. voi | Open u |
| - | 136.12 | 135.22 | • | 138.26 | 136.01 | 3500 | n/a |
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| | Eta | | | | | | | | | INTERNATION | ONAL | BON | IDS | | | | | |
|----------|--|--|--|--|--|--|--|---|--|--|--|--|--|--|--|--|--|--|
| | Open | 1 54 | it price | Change | High | Low | Est. | | pes int | Ose 2 | Red | Compan | S & P Reing | Std price | State yiti | Day's chara yaci | | Speed . |
| igi. | Dec 108.2 | 5 1 | 08.65 | +0.05 | 101.65 | 109.25 | 17 | 2 | 248 | | | | | | | | • | · · · . |
| 9 | US CORPO | RAT | E BO | NDS | | | | | | EBS South | 02/07 01/07 | 5,750 5,750 | AAA | 110.9000 110.5643 | 4.15 | +0.01 -0.05 | -0.23 -0.24 | +0.21 +0.34 |
| | | Red | | 5 & P | ěld. | 24 | Day's . choc | Man's chos | | Philip Morris - Philip Horris | 03/04 | 8.375 3.531 | - A | -104.7070 160.8290 | 4.35 2,87 | +0.02 | 0.24 | +0.64 |
| _ | Dec 1 | dela | Coupo | Rutting | price | yieki | yid | yki | | MI KURO PVII | | | 1901 | | | | | 7.4 |
| | | | | | 150 0.00 | = 4.0 | | | | Assisia Alaber Het | 01/04 02/04 | 5.500 6.000 | AAA AA | 108,0200 | 3.75 | -0.03 | -0.24 -0.25 | +6.16 |
| | Pec Sell Ny Tai | (7/02 (6/03 | 7.25 7.00 | A+_ | 105.6136 103.6409 | 5.19 6.51 | -0.10 -0.06 | -0.07 -0.36 | +0,76 +2,56 | Cred Fonder | 02/04 | 9.125 | A | 123,1000 | 3.85 4.10 | -0.81 -0.83 | -0.94 | +0.81 |
| | CHE III FIRMICIALS | 06/08 | 8.00 | | 119.07 | 5.60 | -0.07 | -0.17 | +1.23 | SCF FRN Mr Euro Liba | 13/01 | 3.617 | M- | 99,0801 | 3.29 | -0.03 | -0.23 | -0.04 |
| | SECC. | 05/07 | 8,76 | AAA | 121,2278 | 8.86 | -0.08 | +0.02 | +0.90 | EB | 02/07 | 7.000 | AAA | 118,8890 | 4.22 | - | -0.20 | +0.00 |
| | Bacc One CNA Plo | 08/02 | 7.25 | X. | 108.2742 95.3139 | 5.38 7.41 | -0.10 -0.01 | -0.18 +0.14 | +0.90 | Abbey Met West Decrey | 02/02 06/00 | 8.626 8.626 | AA A | 107,0300 | 3.75 3.81 | _ | -0.22 -0.22 | +0.15 +0.34 |
| _ | IN THE PROPERTY OF | | | | | .,,, | | 74117 | 1200 | EU FRN | 03/01 | 4.743 | AAA | 100.0227 | 3.00 | -0.01 | -925 | -0,21 |
| DL Po | WMX Tech Wei Mari | 94/98 05/02 | 6.25 6.75 | AA | 199.1967 105.9050 | 5.84 4.88 | -0.02 | +0.11 | +1.56 | E . | 12/07 | 7.625 | AAA | 118,0600 | 5.33 | +0.09 | -0.34 | +0.72 |
| 2 | Dayton Hust | 06/21 | 9.70 | Æ | 135,8150 | | -0.10 -0.01 | -0.09 -0.36 | +0.43 +1.80 | Dreether Ek British Gas | 12/07 03/00 | 7.750 7.825 | AA | 108,9128 101,7848 | 8.43 6.13 | +0.01 -0.04 | -0.46 -0.26 | +1 62 +0.94 |
| | M ASIDIONES | | | | | | | | | Abbey Net FFN | 05/04 | 7.136 | AA | 100,1421 | 4,89 | -0 01 | -0.22 | +0.13 |
| | FHALMIC Slima | 04/07 03/00 | 7.50 7.50 | MAA Mar | 113,0777 103,1091 | 5.18 4.92 | -0.08 -0.07 | -0.10 +0.05 | +0,53 +6,48 | ■ 1070 \$ B | 0407 | 7.250 | М | 114.0334 | 5.14 | -0.09 | -0.17 | +0.80 |
| | FROMA FRCB | 02/18 08/08 | 8.95 8.95 | N/A N/A | 141,1001 123,1145 | 5.46 6.10 | -0.01 -0.02 | -0.32 -0.03 | +0.41 | ABN Amro Quebec | 08/07 01/07 | 7:125 7:000 | A4- | 105.6684 | 8.24 8.62 | -0.08 | -0.06 -0.09 | +1.70 |
| | M. Mell Alexa | | | | | | | | | Chicorp FRM | 02/04 | 5.312 | A+ | 26.3319 | 6.37 | -0.07 | -0.07 | +1.99 |
| | Stone Cont. AK SIL | 12/01 12/01 | 9.86 9.13 | N BB- | 102,2500 | 0.00 | - | - | - | RELIZATIO CAR Baser L—BK | 08/04 | 9.300 | AAA | 120,2576 | 5.27 | -0.01 | -£19 | +0.18 |
| | Pacaliz | 06/04 | 10.78 | B | 85.0000 | 0.00 | | <u> </u> | | Toronia Res Corrects | 05/04 07/99 | 8.500 10.625 | | 115.2620 103.0947 | 5.14 | -0.01 -0.04 | -0.19 +0.07 | +0.12 |
| _ | 1/Y closing. Standard & P | 100 | Gr. Helds | - | of busis. | Saute; b | | inin FT ini | in maigh. | Deutsche B FRN | 09/02 | 6.875 | | 101.0074 | 5,32 | -0.03 | -0.09 | +0.30 |
| 8 | us intere | ST B | ATE | S | | | | | | World Benk | 03/02 | 5.260 | AAA | 115,4896 | 0.49 | -0.02 | +0.10 | -0.23 |
| • | Lateral | | One o | | THEORY BE | e and Bor - Two y | | | . 4.38 | Spain Cred Foncier | 03/02 | 5.750 4.750 | AA | 118.9637 113.0216 | 0.54 | -0.03 +0.04 | +0.08 | -0.18 +0.39 |
| _ | Printer reis | - 74 - 44 | Time o | month | | Three | | | 4.36 4.31 4.58 | limity FRIN | 07/90 | 0.481 | | 100.0694 | 0.99 | -0.04 | +0.24 | -0.08 |
| rL. | Fed house at kingsmedie | 44 | Sik ra One y | | 4/ | FB 10-yes | r | | 4,5e 5.00 | London clashig. Standard & Pool's Milings. | Yelds: Li | cai markat | et mineté | American be- | Source | HARRIN | Date FT Isl | and the same |
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focusing on its performance against the D-Mark

The dollar started weakening in early European trading. And when the opening of US markets saw renewed declines in equity prices, the US currency fell further against sterling and the yen as well as the D-Mark. Fresh rumours that Brazil

would devalue, or at least widen the bands of the real's crawling peg, also helped to put downward pressure on the dollar.

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The US currency finished London trading down against the D-Mark at DM1.673

Against sterling it finished lower at \$1.661, and against the yen it closed down at Y120.5.

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cent level on which the europarticipant countries are the RBA as an attempt to

"The mood music coming from the ECB in the pest couple of days suggests that they are more likely to cut early in 1999 if not before," said Alison Cottrell, chief international economist at Paine Webber in London

"But the dollar started off late Australia from the from such a high level recently, around DM1.70, that any shocks from the equity market side are likely to knock it down," she said.

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The cut was portrayed by

pre-empt the effect on the Australian economy of the giobal alowdown in growth. And with the economy continuing to grow strongly, the markets rewarded the RBA with what appeared to be a vote of confidence in their ability so far to insu-

"Some of the best-performing currencies of the past 6-8 weeks have been those where interest rates were cut," said Nick Parsons, chief currency strategist at Paribas in London.

recession in east Asis.

"But it must be done by an independent and well-respected central benk," he

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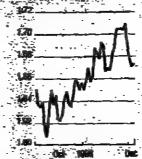
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■ The Russian rouble has continued to weaken as the prospect of the Russian goveroment printing money to finance the budget deficit threatens an accelerating depreciation.

Yesterday the rouble fell, closing after the second of the two daily trading sessions at Rhs19.1, down from Rbs18.6 on Tuesday. Recent money supply data

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under control. But those with long memories will recall that Mr Geraschenko's previous tenure at the central bank four years ago ended ignominiously after inflation got out of control and the rouble collapsed.

This track record seems unlikely to impress the International Monetary Fund. Michel Camdessus, the DIF's managing director,

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Russian government with the eventual aim of unfreezing the \$22.5bn DAF-led aid

And with the draft budget promising cuts in sales tax and rises in social welfare spending, the temptation to monetise the public debt is

Devaluation and inflation seem to be an inevitable and even necessary part of the fiscal and balance of payment adjustments that need to be made," said Arnab Das, analyst with J.P. Morgan in

Mr Das said that expanding the money supply to help close the fiscal deficit might be a new development in Russian monetary policy.

"So far, direct money financing has mainly been used to inject liquidity into the banking system," said Mr

"The next step could be to print money directly to belp finance the budget deficit."

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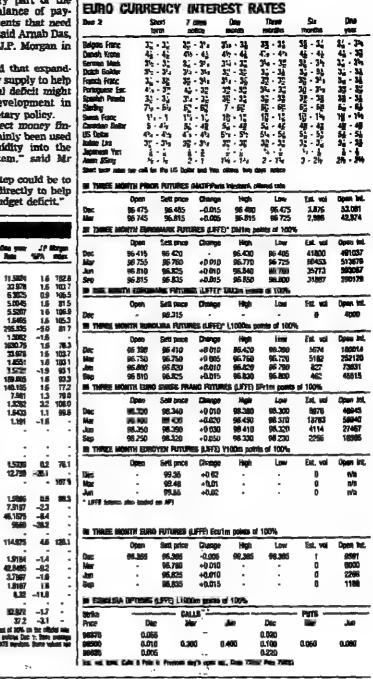
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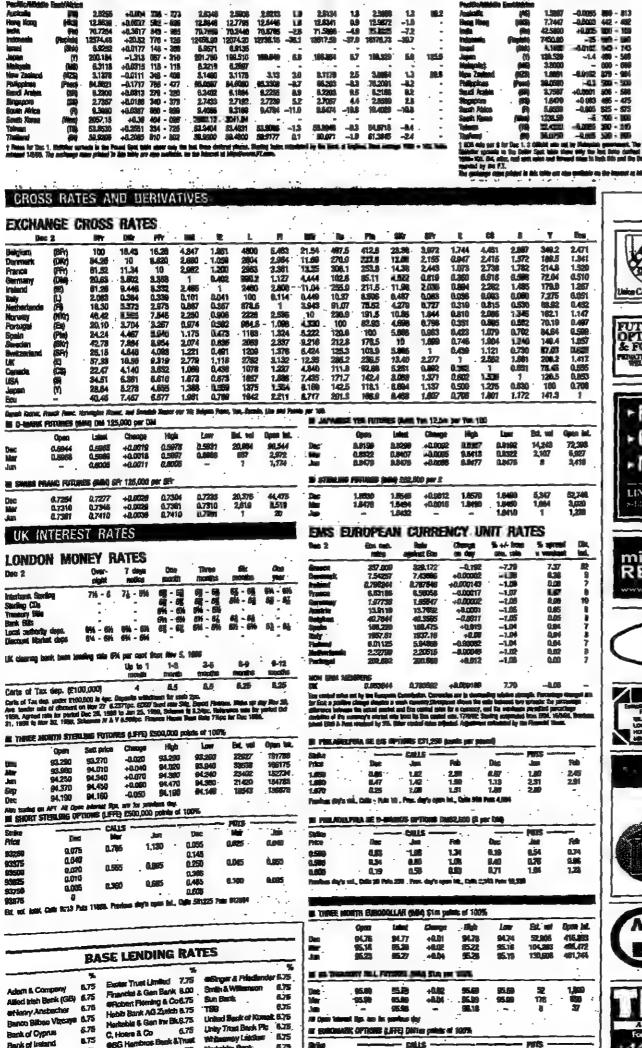
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World prices fall – but not in Australia

By Saphen Wyatt in Symmey

The world cotton market is under pressure with prices having spiralled lower this past week. The Australian cotton industry, however, is booming, although it is not certain how much longer this will last.

The country's cotton growers are benefiting from the weak Australian dollar, the fact that Australian cotton is priced against US cotton futures, and because US cotton futures themselves have been inflated by the US government's record subsidy regime - aimed at maintaining the competitiveness of US cotton exports.

Australia has, therefore, enjoyed the magical mixture of high levels of production and strong prices.

The country produced a record cotton crop this year of 667,000 tonnes and another bumper crop is said to be in the making for next year. The acres have been planted, the water is available - all that is needed is normal weather.

The Australian Bureau of Agricultural and Resource Economics, the independent government research group. forecasts a record 1999 crop of 700,000 tonnes.

Australian prices have never been so high, in spite of the collapse in world prices on the back of the slump in demand from Asia. Many Australian growers have sold cotton for 1999 and 2000 for more than A\$600 a

have sold cotton they will produce in 2001 at more than A\$510 a bale. Considering that this is almost double the cash costs of production, there is a down, it looks like the party

bale. And the more astute

bappening when other agricultural producers worldwide, such as wheat growers, wool growers or cattle producers, are heading

towards bankruptcy. Cotton is different. No one knows why this is so or how long it will last.

"The Australian cotton market is arguably the most sophisticated agricultural market in the world," said Thomas Mueller, president of Savcot Inc. a US cotton merchant based in Georgia.

Active competition among Australia's cotton merchants the companies that buy cotton from growers and sell it either domestically or for export - has given rise to a long-dated forward market. Growers can sell cotton

that will be picked in 1999. 2000 and 2001 at the extraordinary prices offered over the past six months.

Even though demand for cotton has all but disappeared in Asia, a failed US cotton crop this year, which is about 30 per cent lower than last, and the US government subsidy regime (even though US cotton is trading at a 15 per cent premium to world cotton prices) have coincided to keep US cotton futures markets artificially high.

However, this is not likely to last much longer. The US\$700m allocated to this marketing subsidy should run out in the next two months, according to Gordon Cherry of NSW-based cotton merchants, Dunavant Aus-

That is why US cotton futures have fallen 18 per cent in the past six weeks and with cotton prices going may well be over for Austra-

Oil drifts lower after early gains

trading slightly stronger yes. \$11.13. terday in London, after the weekly report from the American Petroleum Institute showed US stocks had

However, prices soon began to drift back down, on last week's decision by the Organisation of Petrodelay action over global pro-

In late trading on London's International Petroleum Exchange, Brent blend for January delivery was \$10.15 a barrel, down 7 cents from Tuesday's close.

January crude was \$11.09 a Oil price barrel around midday. Brent crude 2-month forward Crude oil prices began against Tuesday's close of

producer response to an supply, large inventories and with traders still reflecting repeated across many commodity markets today." leum Exporting Countries to analyst, pointed out in an

> modities has fallen over 5 per cent in recent weeks and is again poised around its 21year low of 195.35, reached in late August," said Mr Crisp. "Although there are some

slowing of the global economy in 1999 or early 2000." J. P. Morgan is forecasting that oil demand will rise by have stabilised, prospects

The state government

quality of reserves and the

distance of only 260km from

the port. RTOML is talking

to Indian Railways, a federal

government undertaking.

about forming a joint ven-

ture for running trains to

ect that cargo handling is

freight constitutes a small

portion of the total cost.

RTOML is taking Hamer-

sley Iron, the Rio Tinto sub-

sidiary in Australia, which

mines 60m tonnes of iron ore

a year, as its model for cargo

handling and work practices.

the capacity to handle ships of 200,000dwt against 60,000dwt now," said Mr

Shrivastava. "The Paradip

Port Trust has identified

land for creating a dedicated

"Paradip Port must have

said Mr Shrivastava.

"It is critical for the proj-

move ore from the mines.

cent between 1994 and 1997. assumed normal weather over the winter, and a return to more stable situations in

Predictions of an unusually cold winter in the northern hemisphere have led many energy analysts to forecast higher oil prices as stocks begin to be depleted.

Lower temperatures at the beginning and the end of the season have been seen as especially crucial to increased energy consumption. However, the weather has remained stubbornly warm in North America over the past few weeks.

1.6 per cent in 1999, down from an average of 2 per day. Lehman Brothers cut its oil price outlook for the Mr Crisp said the forecast US oil benchmark West Texas Intermediate from \$16 patterns and temperatures a barrel to \$14, citing last week's Opec meeting and its failure to add to the 2.6m barrels a day of production many emerging Asian econo-

cuts agreed earlier this year. Meanwhile, base metals drifted downwards on the London Metal Exchange. with copper and lead near to 111/2 and 41/2-year lows respec tively. At the close, threemonth copper was \$1,560 a tonne against Tuesday's close of \$1.582. Lead was

down \$1.50 at \$483 a tonne. Gold was "fixed" margin ally higher at \$294.15 an ounce in London yesterday afternoon against the morn-

Broker remains bearish on cocoa

Weak cocoa futures prices can be explained by a change in manufacturers buying policies, according to GNI, a leading commodities

broker. In its latest "Commodity Perspective" report. GNI said the outlook for cocoa remained bearish, in spite of forecasts that production would fall short of grandings

in the current season. "It would seem as if chocolate manufacturers are starting to move towards the just-in-time stock-holding policy that has worked so successfully in the coffee

market." GNI said. Manufacturers are keeping stocks at a comfortable minimum, then holding back from the market when prices rally, the broker said.

"Even at cheap prices the manufacturers have continued a just-in-time strategy. finally forcing producers to the market, pressing prices even lower.

Latest figures from the US Department of Agriculture put global cocoa production at 2.69m tonnes for the 1998-99 season, which runs from October to September. USDA forecasts total grindings at 2.9m tonnes, leaving a supply deficit for the sec-

ond year in a row. However, prices have been weak for the past few months, and are trading below £1,000 a tonne on the London International Financial Futures and Options Exchange compared with £1,150 just six months ago.

"Cocoa appears condemned to a continuation of the recent bearish trend, GNI added. "Stock figures may be a little unreliable in Europe, but on the whole. inventories are comfortable

by any moasure." Liffe's March cocoa futures contract closed at 2983 a tonne, against Tues-

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On the New York Mercantile Exchange, bellwether

between Anglo-Austra-lian mining group Rio Tinto and Orissa Mining

Corporation, will spend \$18m

in the next few years estab-

lishing the viability of min-

ing iron ore in the east

Rio Tinto owns 51 per cent

of RTOML and OMC, a state

government undertaking,

has 49 per cent. Orissa

accounts for nearly 33 per

cent of India's iron ore

reserves of 12.75bn tonnes

and the three main steel

plants that are planned will

be sourcing iron ore from

OMC has transferred two

blocks at Gandhamardan

and Malangtoli with deposits

of more than 800m tonnes to

pre-feasibility study indi-

cates the existence of

Whether we will invest

the joint venture and the

within the state.

high-grade ore.

Indian state of Orissa.

"The situation in the oil markets - with a limited environment of very weak prices, still adequate or overweak demand - is a picture Kevin Crisp, J. P. Morgan energy markets report.
"The CRB index of 17 com-

signs that Asian economies

Rio Tinto offshoot ventures

The Anglo-Australian mining group has joined the east Indian

director of RTOML

at this time.

state to test the viability of a \$1bn project, writes Kunal Bose

Prakash Shrivastava, project

ore projects or substantial

expansion of capacities of

existing mines are consid-

ered anywhere in the world

through, we will lift the min-

tonnes a year to 15m tonnes

in four years. Ultimately we

will be mining 50m tonnes a

year at the Orissa complex.

Iron ore is a low value com-

modity and to make a suc-

cess of the project we need a

The company is banking

on the federal and state gov-

ernment for infrastructure

development, including the

establishment of a railway

link between the mines and

world class infrastructure."

said Mr Shrivastava.

"If the project

"Not many greenfield iron

into iron ore in Orissa

TOML, a joint venture complex in Orissa will

depend on the outcome of believes the project will take

feasibility studies," said off because of the size and

ing of iron ore from 5m done efficiently and that

remain strong for a further barely I per cent in 1998 and

iron ore berth for RTOML. But we will have the option to move iron ore through the proposed Dhamra port.'

RTOML proposes selling half the mined ore abroad. "Our target markets are the countries around the Bay of Bengal and Arabian Sea and Europe," Mr Shrivastava said. "The three new steel plants in Grissa and the ones in the eastern and western parts of Orissa will be our

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"We are sure the Rio Tinto project will not get stuck through agitation by environmentalists and tribal groups, as has happened with other mining projects,"

a government official said. "The company has surveyed the mining areas extensively, including habitation patterns and flora and fauna. We have been assured that the project will not cause distress and it will be environment-friendly.

swathe of new cotton mil-COMMODITIES PRICES

Base Metals

LONDON METAL EXCHANGE

Prices from Amelographic Metal Trading ALUMENIUM, 92.7 PLEETY 12 per surma 1291.5-2.5 1103-6 Previous High/low MAI (Vinca) Karb close 1073-78 1103-05 1071-72 Tabil daily burnove IN LEAD OF MY DESCRIP High/jow AM Ottical DEL-90 484.5-85.0

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177.830 AM.700 294,15 294.50-294.80 293.40-293.70 Loco Lain Mean Gold Lending Rates (Vs USS) Silver Flx Spot £ equiv. 178-180

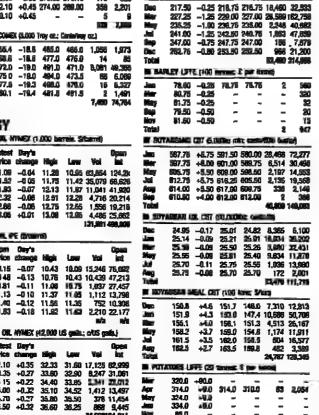
\$1bn in building the mining Precious Metals continued THE COULT COMEX (100 Troy oc.; &frog oc.) 292.7 -0.7 294.4 292.3 1,887 2,577 296.2 -0.7 296.7 294.9 17,129 86,267 297.1 -0.8 298.5 297.0 1,142 18,456 296.8 -0.8 300.6 298.9 509 15,614 M PLATIKAM HYMEX (50 Troy oz.: Mrby oz.) 346.7 -8.4 350.8 348.1 1,878 11,120 348.1 -5.4 349.5 348.5 11 350.4 -5.4 - - -

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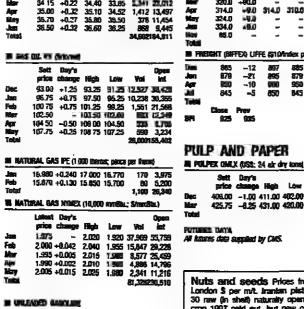
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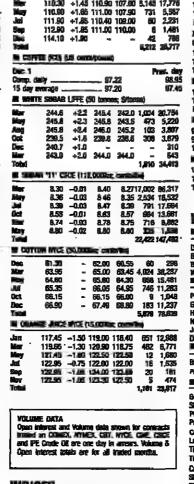
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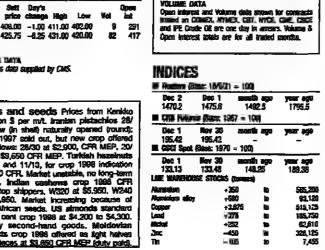
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| | and pieces at \$3,650 CFR MEP (duty paid). |

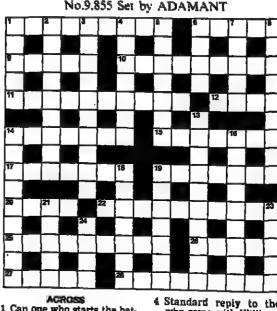
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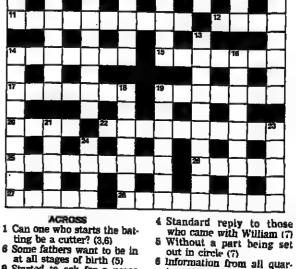




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JOTTER PAD Price change lags Lew Tax 20,718 62,075 -1.125 62,950 61,875 6,271 20,718 62,190 -0.980 62,900 61,800 4,910 30,518 64,700 -0.480 64,975 64,325 1,771 32,801 63,625 -0.290 63,700 63,200 696 11,840 63,625 -0.290 63,925 63,500 300 7,703 66,450 -0.176 69,325 68,075 76 2,177 41,375 -0.500 41,950 40,825 1,933 7.227 For solutions to today's crossword call 0891 430060. Calls cost 50p a minute. CROSSWORD No.9.855 Set by ADAMANT





1 Can one who starts the bat-6 Some fathers want to be in at all stages of birth (5) 9 Started to ask for a name 10 A resort we developed as a 11 Taking away the pain of

living (10)
12 Song of joy (4)
14 Rich man hiding one penny shares (7) 15 Vessels proceed to Birken-head: let's follow (7) 17 Stupid mistake to ignore last quarrei (7)

19 Rights to invention of open society (7) 20 Beware the rocky hollow 22 Being Communist, eastern Europe took blame unfor-tunately, but can be saved

25 Having a peculiar expression (9) 26 Fixes the claws (5) Wants women out of Swe-

den - that's revolutionary! 28 Gives fresh look to flags of merchant fleet, omitting navy (9)

Unq 49.25p

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Rubber (Jan)¶ Rubber (Feb)¶ Rubber (KI, RSS (Kg1))

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Palm OE (Malay.)§ Copra (Philips Soyabeans (US) Cotton Outlook A' Juden Woollogs (EAs Super)

1 Present the bill for the furniture (5) 2 Unexposed pictures, for example, taken among indigenous people (9) 3 Take wide view of judge and peculiar potentate (10)

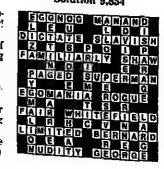
8 Girls hugging poor little Reginald get hand-outs (9) 13 Mitigated sentences from a graduate, note, for people on way up (10)

14 The inference was that a number was taken away (9)

16 Honouring the common people (9) 18 Choose gold for the prince 19 Last month the epitaph about Edward I turned up. perforated (7) Hole in horrid material (5) 23 Makes it less painful for England overseas (5) 24 After a short time, start

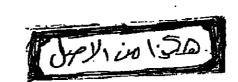
7 Drink a litre of the whole

amount (5)



studying the book (4)

Solution 9,854



29

able over the telephone. Cell the FT Cityline Help Desk on (+44 171) 273 4276 for more details. OFFSHORE **AND OVERSEAS** BERMUDA 銀行光 ISLE OF MAN **GUERNSE** (REGULATED)(***) \$17 **37**1 (PSA RECOGNISED) 2000年 Not even royalty treats their guests as well as we do. City of Lambon Investment Hys 在自己的基础器件。 智力 **1814** Y1751 0 1771 0 100 Marie 100 Ma 1000 Experience the regality of Hotel Tverskaya. One hundred sixty-two inviting rooms and grand suites offer the comfort you desire and the amenities you need. Direct dial telephones and computer data ports make it easy to do business, while a warm, plush robe and sparkling mineral water make it even easier to relax. Call 1-800-777-1700. Amadrus/Spiten One: MON 39.7 • Apollo/Galden 6.5609 Acces tede: CS • Worldspan 303 • Subre. 20193 2128 ISLE OF MAN (REGULATED)(**) S STATE OF S CAYMAN ISLANDS

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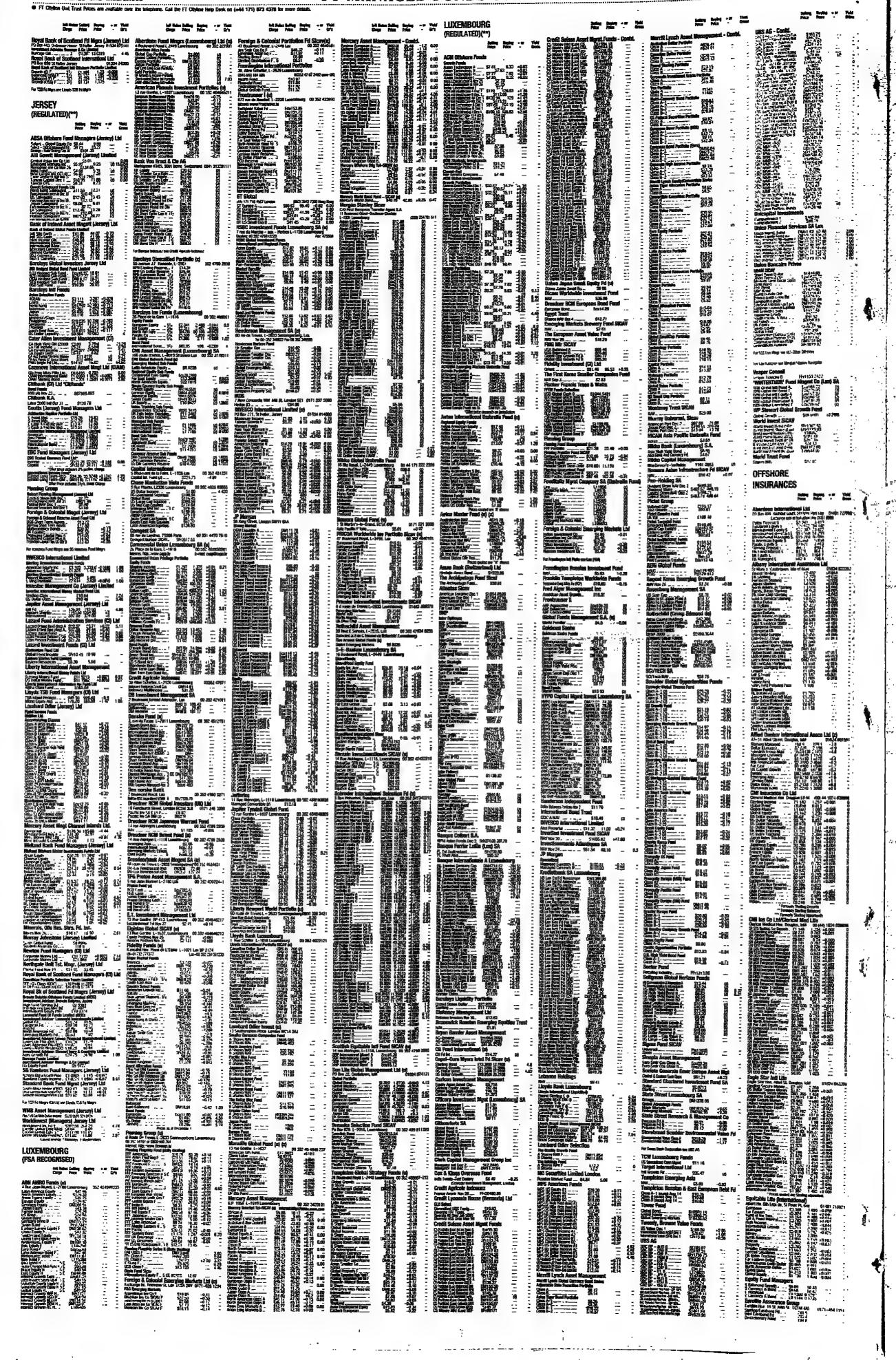
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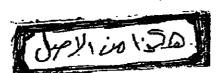
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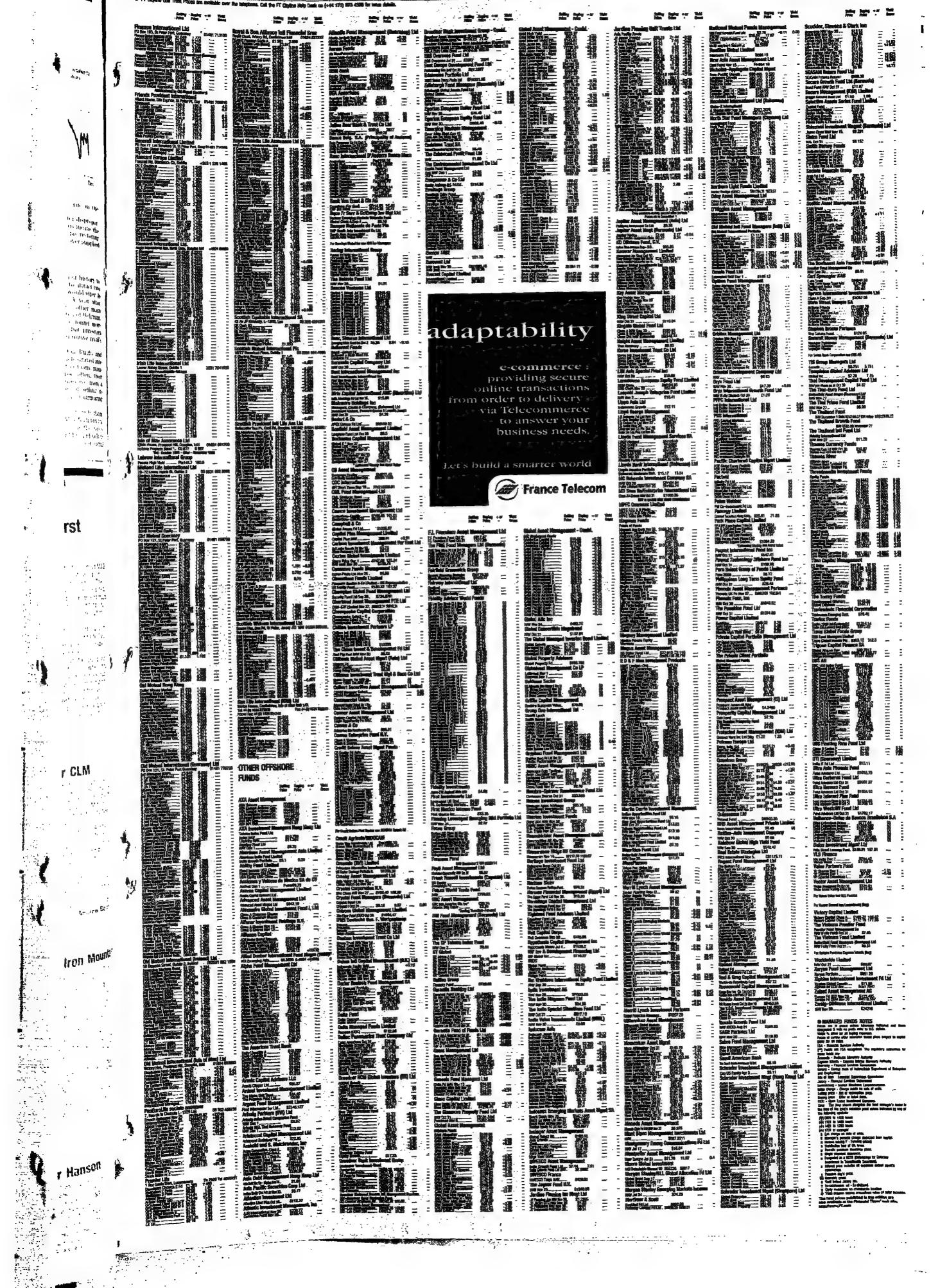
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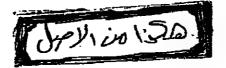
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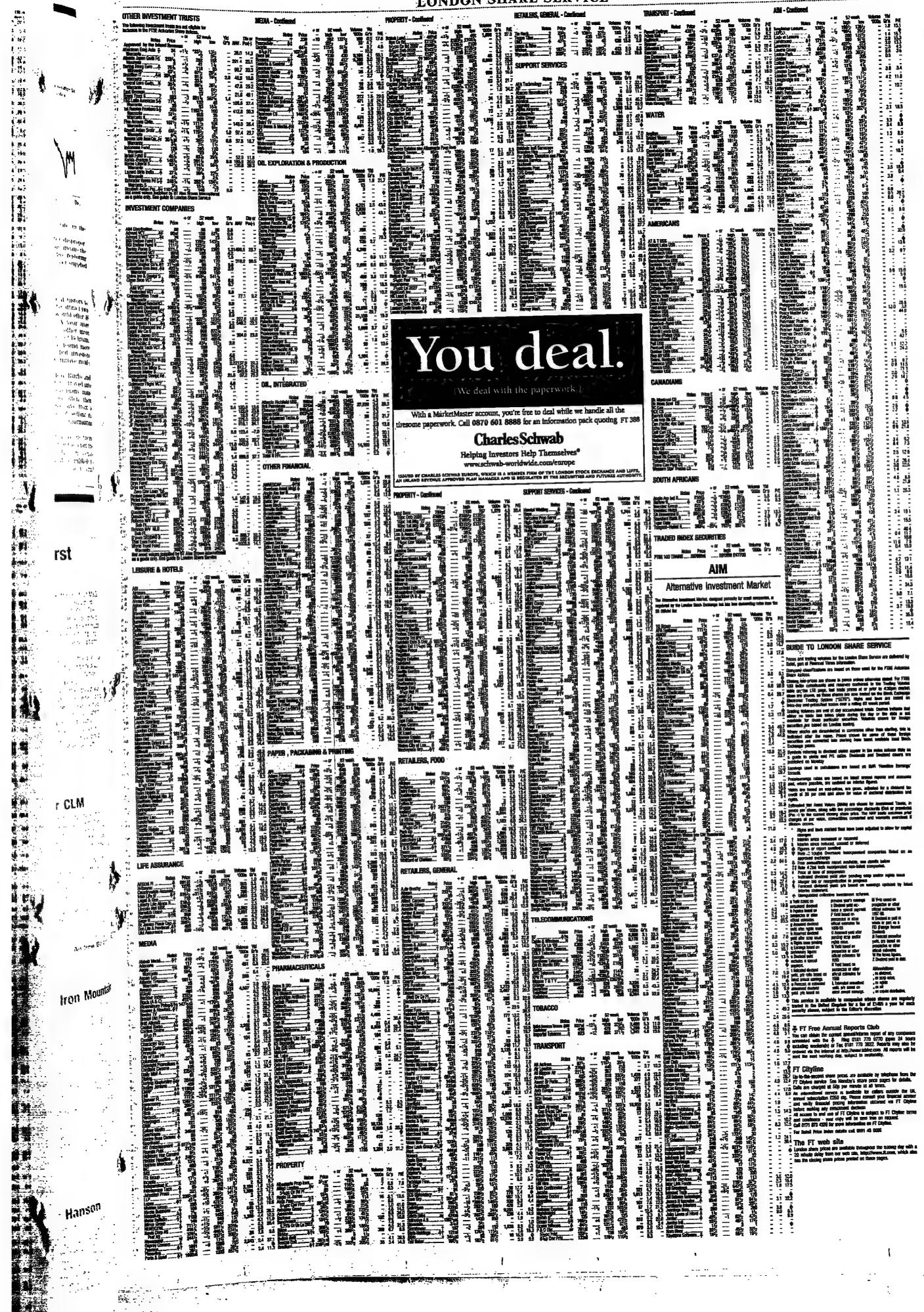
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dealers and investors alike. Piling on the pressure in London was the recent bad news on the domestic economy which included the severe contraction in output in the UK manufacturing sector that helped trigger Tuesday's 200-point plus

the world's biggest aircraft global markets by warning Street's rally on Tuesday. of a sharp slowdown in earn-

"Without the Boeing news rush vesterday, unnerving I think we might have been okay," said one London trader. "But that has really begun to worry the institutions who are now having to rethink strategy about the global earnings hit. It's points in the first 10 minutes going to be a long haul from here on."

Burdened by the fallout

added by the overnight news neering sector, the whole of turnover of 1.1bn shares, manufacturer, shocked the day, ignoring Wall

Wall Street puts more pressure on UK stocks

The Dow Jones Industrial ings and massive job losses. Average finished a net 16 points higher, having been down almost 130 points early in the session.

But the US market ran into another burst of selling pressure at the outset yesterday, dropping more than 40 of trading and posting a 170point fall not long after the London market closed.

from the US where Boeing, the London market was much of it said to be associunder pressure for most of ated with tax-related trades, the FTSE 100 index was 30.3 down at 5,507.2. Earlier, when Wall Street

was coming to terms with ity in London in the run-up the Boeing news and a big to Christmas and the new sell-off in Sears Roebuck, year. which warned of lower-thanexpected earnings, the index had dropped through the 5,500 level to record a ses-

sion-low of 5,489.5. The market's midcap and smallcap stocks also suffered but dealers said that the downside pressure was 4.804.4, having momentarily while the FTSE SmallCap gave up 2.7 to 2,036.8.

Marketmakers said they expected increasing volatil-

"London, along with most other markets, will be unreadable because of the Emu effect which has meant that the institutions have already taken the end-year positions they would normally have worked at during December," said one trader.

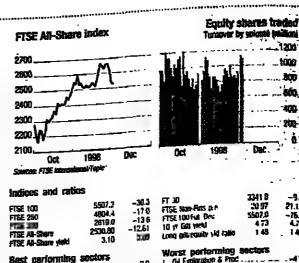
fall in the London market. from the Boeing news, which By the close of a session never overwhelming. The "They won't get involved in And a final twist was cast a shadow over the engi- characterised by more heavy FTSE 250 closed 17.0 lower at the run-up to European monetary union and will dipped below the 4,800 mark, simply stand back and watch. From here to the year-end, the markets will mostly be at the mercy of

> The latest dose of profit warnings came from right across the board, with the most damaging from Arcadia, the high street retailer formerly known as the Bur-

speculators."

ton group.

Arcadia pointed to a steep decline in consumer spending and some intense price markdowns by its competi-



Arcadia stuns analysts

COMPANIES REPORT By Joel Kibazo, Martin Brice and Peter John

profits warning from fashion retailer Arcadia Group stunned investors. wrong-footed one of the company's brokers and sent shares in the group and sec-

tor plunging. The company shocked the market with a statement that said the outlook for the first half of the current financial year was "not as encouraging as previously anticipated". It added that sales in the first 13 weeks of the first balf were down 1.8 per cent.

The statement, which came "out of the blue" according to one sector specialist, appeared only weeks after the group indicated that trading was in line with

expectations. Analysts at Credit Suiss First Boston, one of Arca dia's two brokers, had been recommending the stock and were big buyers of the shares. Arcadia recently held presentations for insti tutions at which the mes sage about current trading appeared confident.

"It's difficult to see how much worse the company some could have handled this. Investors will feel stitched

said one angry analyst. of profit warnings in the sec-Another said: What we tor this year, were again have here now is a credibil- heard to scream for mercy as ity problem with the man- they digested the news from agement. Who can believe Arcadia.

what they say anymore?" Both CSFB and Cazenove. the company's other joint decline in retail issues. broker, were said to have slashed their year-to-August warning. CSFB also downfrom "buy" to "hold". The shares lost 75% or 26.2

per cent to 2121-p, making them by far the worst performer in the FTSE 250. Dealers in the stores, already cowed by a long list

Sell orders dominated

activity, prompting a sharp Great Universal Stores was the worst performer in the 1999 profit forecasts to £60m FTSE 100 as the shares gave from £90m following the up 52 or 8.31 per cent to 574p. Investors again baled out graded its recommendation of Marks and Spencer, leaving the shares 15th off at 400o, after trade of 12m.

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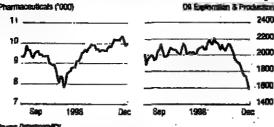
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| outy bargainst | | 56,420 | 56,587 | W1,500 | 51,042 | 41,328 |
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Best and worst performing FTSE sectors



from electrical goods retailer Dixons. Moving against the 391p. sector and general market trend, the stock appreciated 18 to 758p, with sentiment said to have been boosted by Goldman Sachs reacting positively to a conference call with the company.

The surprise profits warning from US aerospace group Boeing took its toll across a engineering companies.

The most obvious fall was space which fell 20% to 477%p. However, the negative sentiment spread to general engineering companies likely to suffer a slowing of demand. Slebe, which was at 243p immediately after the announcement of its merger with BTR, was down 9 at 201p while BTR fell 214 to

Other engineering-related stocks expected to suffer a slowing of demand from Boeing were Britax international, off 64 at 1084p, Rolls-Royce, down 5 at 235p. and Ti Group, which fell 6 to

Boeing pointed to a slow-200p in four years. ing of demand for air travel

Etex to make its move.

The only ray of light came in Asia, and British Airways saw 10m traded as it lost 4 to

> Smiths Industries managed to move against the falling tide, rising 15 to 840p in the wake of the earningsenhancing purchase of Entraco.

The decision by leading Marley shareholder PDFM to underwrite the costs of bidder John Mansfield left the swathe of UK defence and fund management group around £24.5m better off yesterday as the building matesuffered by British Aero- rials company accepted a cash bid from Etex of Bel-

Aggressive stance

Analysts were divided over whether the move signalled a more aggressive stance by fund managers, or whether the management at Marley was uniquely disliked by investors.

The Etex bid at 125p a share is at a premium of 60 per cent to the 78p at which Mariev shares stood before offer speculation began. PDFM had a stake of about 18 per cent in Marley, which has fallen from more than

PDFM underwrote the costs of John Mansfield's

about 18 per cent of the company. Marley gained 16 per 6%p. Norcros, over which John Mansfield cast its slide rule earlier this year, was up 5% at 58%p in brisk volume of 1.5m.

Rugby is also seen as a otential bid target following its recent profits warning. It

and production group, fell almost 10 per cent to its lowest level for four and a half ears. The slide of 121/2 to 119%p reflected the market's concern that the company is struggling with oil prices.

CSFB called Lasmo's recent decision to axe a large chunk of head office staff "a panic move" and said: "We can expect little positive news flow from Lasmo over the next 12 months from an

Lehman Brothers registered disappointment that the meeting of Opec oil min-isters had left production restrictions of 2.6m barrels a day unchanged. ISA international said the

pre-tax line would fall from 26.3m last year to about 23.2m and its shares, which stood at 239p last year, were down 7 at 33p.

The distributor hinted at management troubles as chief executive John Parkinson stood down due to the "need for the company to have clear unambiguous leadership".

Carlton Communications bounced 14% to 492%p in belated reaction to full-year figures on Tuesday.

ICI improved 6 to 540p in anticipation of positive feedback from an analysts' trip to the company's operations in the Netherlands.

Buying ahead of today's 97.4p paper offer, prompting results and reiteration of a "buy" recommendation from Dresdner Kleinwort Ben- HSBC Securities saw Royal son bought Marley shares in Bank of Scotland recover 14 the market yesterday, as to 870p. The shares have suf-59m were dealt, representing fered since a Sunday newspaper said the bank would have to write off more than

John Mansfield was easier at FUTURES AND OPTIONS III FTSE 100 INDEX PUTURES (LIFFE) £10 per hall index point -41 0 5650 0 -42 0 5669.5 -43.0 5631 0 5640.0 5507.0 5669.5 5554.0 5631.0 5598.0

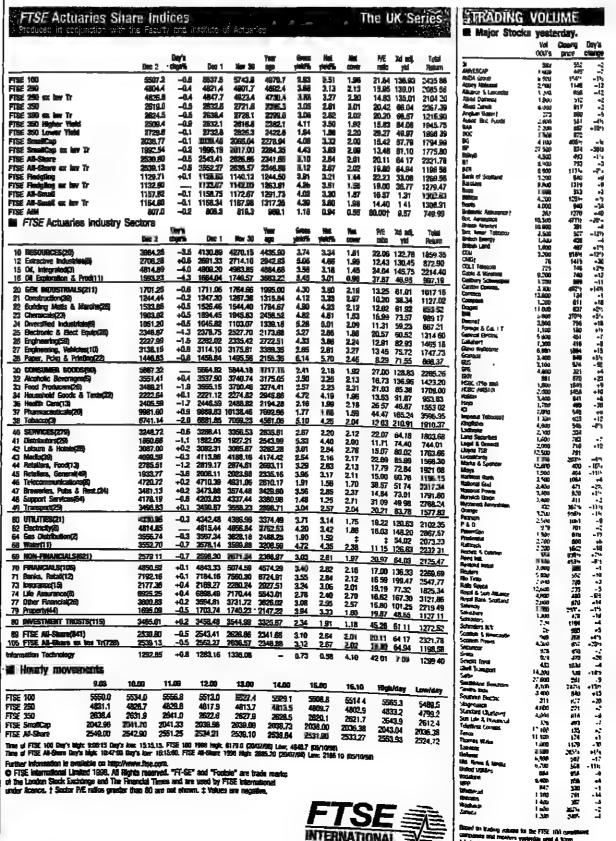
III FISE 250 DIOEX FUTURES (LIFFE) £10 per full ander point rose 51/2 to 87p. Lasmo, the oil exploration

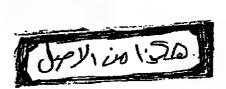
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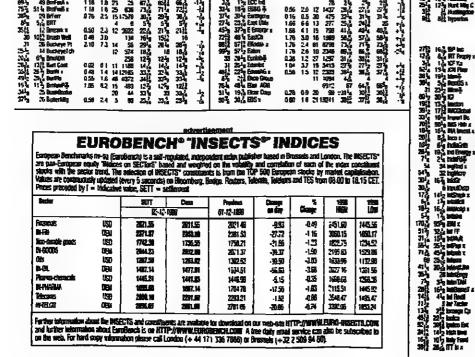
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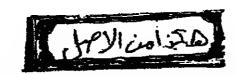
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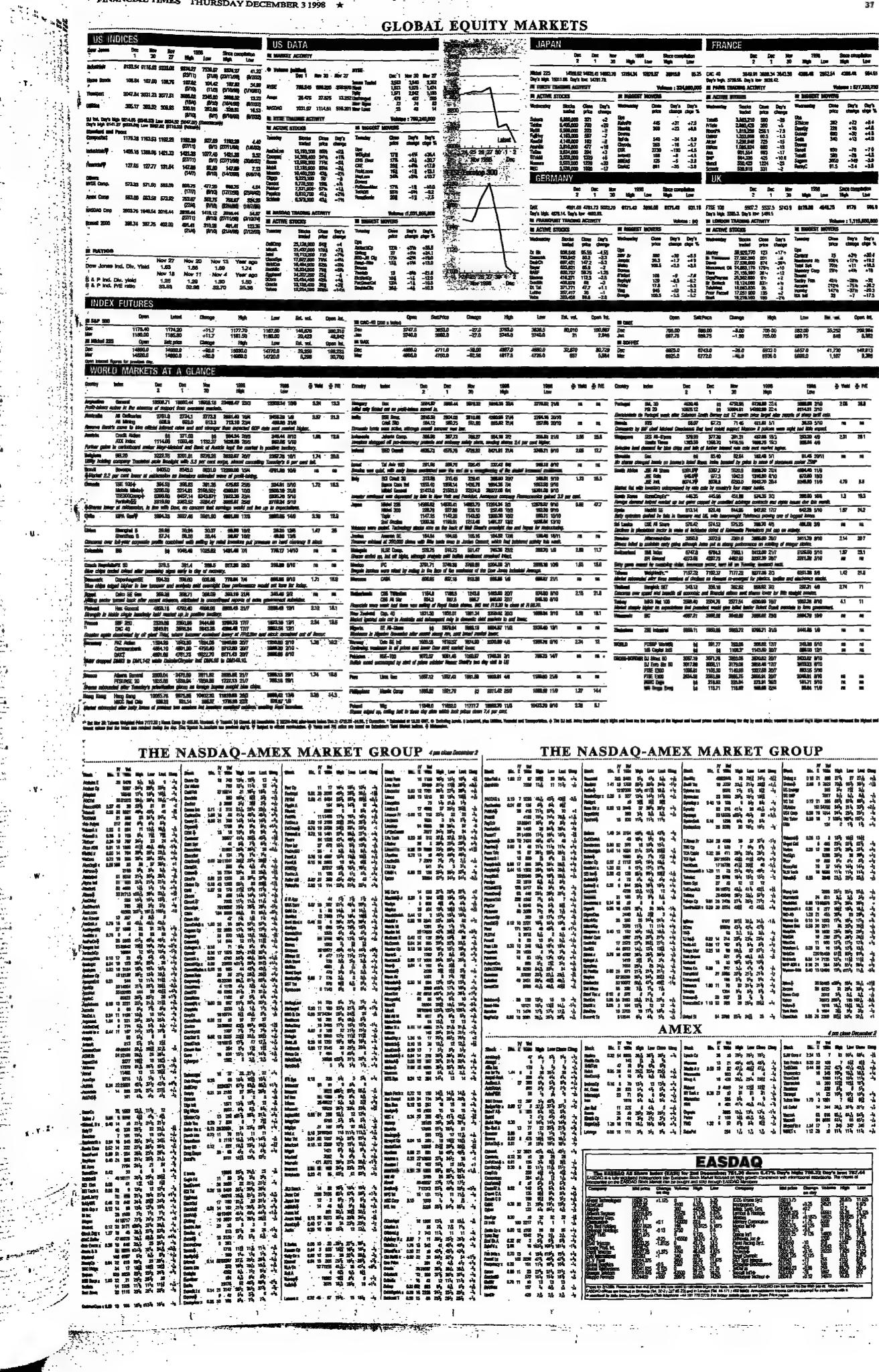
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between October 2 and

December 1. In its latest

monthly research it says

with a price target of Fl 320.

ZURICH was hurt by the

crumbling dollar and Wall

Street's weak opening and the SMI index, which

reached an early high of 6,932.4, turned back to close

37.3 lower on the day at

Some financials, notably

the insurers, recovered after

Tuesday's losses. Zurich

Allied rose SFr11 to SFr938

and Baloise gained SFr34 to

813.14 on the general index.

Banks were a shade easier

and Endesa lost 2 per cent as

the power leader's attempts

to acquire Ebersis of Chile

appeared to hit problems.

Endesa fell Pts75 to Pts2,000.

Sausage skin maker Visco-

fan improved Pta100 to

Pta4.345 after a local broker

ungraded the shares to buy.

MADRID gave up 7.34 at

SFT1.234.

US pulls bourses lower after Boeing stalls

WORLD OVERVIEW

World markets continued to track Wall Street on a day dominated by Boeing's announcement of a profits warning and further job cuts, writes Michael Peel.

The aircraft maker's stateport for strategists who think analysts' inflated earnings forecasts have led to an overvaluation of US stocks.

sending European bourses Manila fell on profit-taking ing over-capacity in the [US] lower in the absence of other big corporate news.

The most significant deal announced in Europe yesterday was Deutsche Bank's DMIbn purchase of the Belgian business of Credit Lyonnais, the French bank.

Asia edged forward after Tuesday's modest rise in New York, although the fortunes of individual markets were mixed. Tokyo. Hong Kong and Singapore all

and Bangkok suffered its fifth consecutive decline.

came the day after the release of downbeat purchasing managers' surveys from the US; UK, Germany, Italy, Denmark and Sweden. They suggested manufacturing activity was declining.

That view is consistent with the official line of Dresdner Kleinwort Benson's strategy and economics

Early losses were pared in

PARIS, but the market still

ended lower for the third day running. The session

was again dominated by oil

giant Total, where turnover

remained heavy at FFr2.3bn.

index was comfortably above

its 3,638.42 low for the ses-

sion at 3,649.91, a decline of

1.04 per cent or 38.43 on the

day, or 7.5 per cent since Fri-

Total stayed out of favour

as analysts drew compari-

sons between the 37 per cent

premium it is paying for

PetroFins and the 15 per

cent or so put up by BP and

The stock ended off FFr28

Exxon for Amoco and Mobil.

at FFr5.90, a two-day fall of

The FTSE Eurotop 300 Index fell

9.69 or 0.88 per cent to

1,096.61. See Euro Prices page.

16.8 per cent. Broad senti-

ment was not helped by Mor-

gan Stanley Dean Witter.

which cut its target price for

The downbest mood also

spread to PetroFina in Brus-

sels where profit-taking after

Tuesday's 18.4 per cent surge

left the stock off BFr225 at

Firm features in Paris

included BNP, up FFr10.80 at

FFr425, and STMicroelec-

TV group TF1, hit delays

curb public television adver-

shed FFr45 at FFr963.

BFY16.650

the shares by 7 per cent.

By the close the CAC-40

EUROPE

day's close.

manufacturing sector," said Ian Harwood, global head of rose almost 20 per cent The news from Boeing strategy and economics. "The same is likely to be true of the service sector. domestic pricing power continues to evaporate.

Post-tax profits in the US are hit by slower growth and had fallen by 6 per cent yearcheap imports. Nomura predicts the flight on-year in the third quarter from equities will intensify of 1998, "We think this will run through in 1999. This as small-time investors reduce their spending on

Nomura, too, forecasts a ket volatility in the summer fall in US stock prices, which has probably caused these

companies will be forced to curtail investment and

group Astra.

tors who take a less bearish view. Goldman Sachs' monthly publication on world investment strategy predicts earnings growth its should hold up better in Europe than in Japan and

the day at SKr148, as the

cancellation of a planned

meeting with analysts set

rumours, or a suggestion

eclined to comment on

rumours that either

Germany's Schering or Sche-

ring-Plough of the US were

59 zlotys after its majority

shareholder, Belgium's CBR,

ZEW, the electrode maker,

Written and edited by Michae Morgan, Jeffrey Brown, Michael Peel and Peter Hall.

WestLB Jumbo Pfandbrief —

made a bid for the shares it

did not already own.

The general index lost

the stories running.

about to resign.

eyeing the company.

25.28 to 3,167.88.

There are still commenta-

next year, adding that prof-

to attract buyers for a substantial part of this year. ened by renewed rumours of eral US buyers made their a merger involving drugs The shares shot up to a Clinton that month. peak of SKr152, but settled

Derek Hammond at broker back to close SKr3 higher on T. Hoare & Co said: "The with the economy

The company refused to strong performer, up 31.1 per cent at its peak, while Maucomment on the merger that the group's chief execuritius showed an annual tive Hakan Mogren was gain of 18.8 per cent in Last week, Astra also

Buyers were also attracted to the new regional market serving the former French colonies in West Africa, which opened in the Ivory Coast capital, Abidian, in On the downside, political

WARSAW called a halt to a three-day 7.4 per cent slide and the Wig index closed virtually flat, 23.1 higher at Among the day's active issues. Cement maker Gorazdze shot up 14.90 zlotys to

Failure to privatise Zam-bia Consolidated Copper Mines knocked confidence in that country's market, while local currency depreciation in Malawi hit dollar returns from its bourse.

put on 4.20 zlotys to 46.20 ziotys on news that SGL Carbon of Germany was considering taking a majority

EMERGING MARKET FOCUS

Chill penetrates Africa's shelter Vearly 18 months after the Status thobal decline in emerging Constitute and the constitute of the const La cultatinis

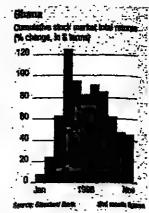
markets began, a chill wind has finally started blowing through sub-Sahara Africa. Although South Africa, by far the continent's largest market, followed the trend in other emerging markets. much of the region was shielded from the worst of the downturn and continued

According to Standard Bank in London, the stock exchange index in Chana nore than doubled in US dollar terms in March. Sevdebuts on the market following a visit by President Bill

market has been reflecting the fact that the government has managed to get to grips Botswana was another

and economic uncertainty overhung Kenya and Nigeria, while Zimbabwe, one of the best performing emerging markets in 1996, saw another decline this

Christopher Hartland-Peel at Standard Bank believes "high profitability, low debt said: "I remain positive on levels, good management at the region, but great care the listed companies and, has to be taken with stock with one or two exceptions, selection." a generally strong banking sector" explain the relative



much of the year. Sentiment changed in th second half and the last quarter saw increased sell-

ing. By the end of November, Ghana's gains had been cut to 45.8 per cent while Botswana's slowed to 19.4 Profit-taking has been partly blamed for the

been a worsening of sentiment in emerging markets. Jenni Chamberlin at HSBC also points out that the strong advances seen in several markets in the first half boosted the weightings of some index funds beyond their intended ceilings for the region. Dealers said this

had prompted a sell-off, In spite of that decline, the region remains ahead of the sector. Figures up to the end of November from Standard Bank show sub-Sahari equity markets, excluding South Africa, have declined 13.9 per cent since the begining of the year. The Morgan Stanley Capital International emerging markets index fell 24 per cent in the same period, and the IFC emerging markets global index declined 21.4 per cent.

Jenni Chamberlin at HSBC

Joel Kibazo

Dow tumbles Total's fall dominates Paris on corporate profit fears

Fears over corporate profits unnerved Wall Street, sending the Dow Jones Industrial Average back below 9,000 in morning trading, writes Daniel Bögler in New York.

The Dow dropped 148.29 to 8.985,25, while the broader Standard & Poor's 500 index fell almost as heavily, losing 14.24 to 1,161.04.

The market was dragged down by another profits. warning from Boeing, which plunged more than 16 per cent to \$33%. The aircraft maker blamed the Asian crisis for production cuts which will reduce its projected 1999 earnings from \$2bn to

Retail stocks were battered by bad news from Sears Roebuck, the department store chain, which shook confidence in the outlook for the Christmas shopping seeson by delivering a profit warning for the fourth

Sears said its domestic revenues fell by 4.5 per cent last month, a period that included the start of the holiday shopping season. Its shares were down \$24. or 5 per cent, at \$42% in early afternoon trading.

Among other retailers, the big department store groups were hardest hit.

J.C. Penney was down \$% at \$32-a. Federated Department Stores \$1 at \$40 a. and May Department Stores Oil stocks had a quieter

day after yesterday's falls,

partner for Mobil, fell more heavily, by \$21 or nearly 3

Meanwhile, J.P. Morgan the investment bank which is expected to gain substan-tial fees from advising on all the big oil deals announced recently, gained another \$4 to \$108%, building on the

Technology stocks were dag composite down 24.17 at announced an aggressive

TORONTO fell back in early trading, weighed down by another weak start on Wall Street that sparked profit-taking across the heavyweight banking sector. Royal Bank of Canada came off C\$1.45 at C\$76.55 and Canadian Imperial Bank

C\$30.30. Among industrials, Northern Telecom fell C31.50 to C\$71.30 and Seagram 85

cents to C353,30. Canadian

retreated 55 cents to C\$34.65.

Pacific lost 45 cents at for the private channels, C\$33.45. Firm features were thin on with Exxon slipping just \$% the ground. Gulf Canada subject of strong merger to \$71% while its takeover hardened 5 cents to C\$4.80 target Mobil managed a \$1 and Alcan Aluminium

Chevron, which had been cents to C\$41.80. São Paulo slips again on loan deal concerns

lose ground, adding further losses to the 6 per cent ute hitches before." decline racked up by the Bovespa index over the past changed in early trading. two sessions.

The benchmark was off 180 or 2.1 per cent at 8,365 by midsession with brokers cit- in active trading amid talk ing the weak start on Wall that a solution was immi-Street and nervousness nent to the scandal-driven about the IMF loan package. difficulties confronting the said he was confident the ple, rose 16 centavos to 2.07 \$41hn aid deal announced last month would be ratified. 86 centavos to 13.04 pesos.

"There have been last-min-MEXICO CITY was little with the IPC index improv-

ing 7.49 to 3,756.87. Bank stocks found favour A finance ministry official sector. Bancomer, for exampesos and Banamex gained

previous session's big rise.

also weaker, with the Nas-1,979.58. While International Business Machines, Microsoft and intel all fell. Hewlett-Packard stood out with a 2 per cent rise to \$63# after the computer maker mush into financial services

of Commerce C\$1.10 at C\$34.20. Bank of Nova Scotia

As a result, the benchtronics. Which bounced mark 300 composite index FFr23 to FFr382 after sliding was off 58.74 at 6,398.40 at almost 10 per cent on Tuesday. Carrefour added FFr11 noon, although volumes at FFr4,036 in spite of a Golds were dull with Bardowngrade from "buy" to rick shedding 20 cents at to a broadcasting law to

came off FFr31 at FFr1,199. FRANKFURT headed further into negative territory registered a loss of 64.96 at setting hopes for further 4,712.20.

BMW was the car sector's big loser as news that the Fl 19.90 or 5.6 per cent to SAO PAULO continued to But as one broker said: Rover Group chairman, Wal- Fi 335.10 after Salomon ter Hasselkus, had resigned Smith Barney initiated cov-

overshadowed a landmark deal to age 2,500 jobs and introduce flexible working to save the British Longbridge plant from closure

BMW dropped DM63 to DM1,142, while Daimler-Chrysler lost DM4.55 to Deutsche Bank picked up

to a high of DM102.75 on news that it was to buy Crédit Lyonnais Belgium before selling pressure again took hold. The shares closed DM4.15 lower at DM95.55. Dresdner Bank lost DM2.68

to DM68.30, hurt by a Merrill Lynch downgrade that said the bank was too hasty in seeking acquisitions and mergers. The stock jumped last week on a rumour that it would co-operate with investment bank CS First

Stemens was marked down DM2.95 to DM212.55 about of today's annual news conference at which the company is expected to provide a 1998 earnings per share figure little changed on 1997. AMSTERDAM fell 21.05 to 1,027.68 on the AEX index

tising and leave a clear field after further weakness for financials and persistent selling at Royal Dutch. ING, downgraded by local Sanofi and Synthelabo, the broker Ovens as a result of disappointing banking rumours in recent sessions. returns, lost Fi 3.20 at fell back. Sanofi lost FFr70

gain to \$84%. However, stayed positive, improving 15 at FFreso and Synthelabo Fl 98.70 and ABN Amro retreated Fl 1.40 to Fl 35.10 in 11.8m shares traded. Royal Dutch gave up after Tuesday's 5 per cent F12.50 at F186.20 with weak tumble. The Xetra Dax index international oil prices off-

> consolidation Wolters Kluwer slipped

Bank rate cuts fail to cheer

SOUTH AFRICA

Johannesburg ended little changed on a day of mixed cent at 946. Industrials trading. during which a stayed positive, adding 0.6 round of interest rate cuts per cent at 6,074.8. by the leading banks failed to cheer the market. The all share index eased

3.9 to 5,391.6. Financials dipped 0.4 per cent to 8,263.4 and golds gave up 3.2 per

Among the day's more active stocks, Sasol rose R2

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Maturity: Dec. 3, 2003 Sec. Code: 307-502 Volume: 3.25 br Market Maker West D. Bankpaselischert Berlin Drescher Berlin, Hestische Lantestenk, Nordt B. Sechweit B

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Coupon: 5X% Meturity Oct. 14, 2005 Sec. Code: 307,503 Valurae: 3.00 bh Commerzbank, DG Bank, DGZ Bank, Landesbank Rheinland Pfatz

Metunity: Dec. 8, 2005 Sec. Code: 307 506 Volume: 3.00 bri WestLB, Bayerische Hypothe Bayerische Landesbenk Dresdner Bank, Sectisen LB

Courion: #446 Maturity Sept. 25, 2007 Sec. Code: 307.507 Volume: 200 bh Marian Maker
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Nikkei halts its losing streak Daewoo Electronics SEOUL ended little blue-chip state stocks. The

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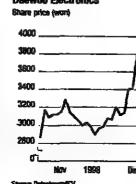
The benchmark TOKYO index rose for the first time in four days of trading, but volumes were muted and the market lacked direction, writes Paul Abrahams,

The Nikkei 225 rose 151.21 or 1.02 per cent to 14,986.62 after trading between 15,011 and 14,781. The recovery was broadly based, with the more representative weighted Nikkei 300 index up 0.4 per cent or 0.89 at 228,78, and the Topix index of all first-section shares up 4.89 or 0.4 per cent at 1.147.

Volume was just 311m shares, but the momentum was reasonably strong, with 743 shares up. 418 down and

135 unchanged. Technology stocks rose on restructuring. Toshiba was the second most traded stock, up Y20 at Y700. Hitachi rose Y20 to Y750 despite reported problems

up Y23 at Y1.436. that the group's chairman to Y4.86m.



had been arrested in connection with a bribery scandal. The stock fell Y7 to Y597 in

heavy trading. Takefuji. the consumer

Y8,540 to Y9,450. with a recently upgraded tisation, fell Y21,000 to and Brambles 59 cents to system at the Tokyo stock Y910,000. Despite heavy sell- A239.79. exchange, and Fujitsu was ing by retail investors, NTT

duced a number of sharp

price movements. Among techs, Samsung Electronics gained Won1,500 at Won64,000 and Daewoo Electronics, driven by talk of restructuring, shot ahead by Won405 or 11.9 per cent to Won3,815. The Kospi index ended up 0.39 at 446.35. BANGKOK moved lower

for a fifth day with the SET index off 13.04 at 343.12 on investor worries that political enthusiasm for economic reform is starting to fade. Banks fell steeply. Bang-kok Bank lost Bt3.50 to Bt47 and Thai Farmers Bt2.75 to

Bt48.25. The sector index shed 7.3 per cent. SYDNEY celebrated a cencredit group, started trading tral bank cut in interest investors continued to take the back of Wall Street's on the first section of the rates by rising 26.9 to 2.761.0 overnight rise and hopes for exchange and jumped from on the All Ordinaries index. its over-the-counter price of A number of leading shares rose to fresh peaks and the NTT, whose management retail sector came in for is marketing the fourth renewed buying. Lend Lease tranche of the group's privagained 85 cents to A\$19.90

JAKARTA rose sharply Ayala Land, the property DoCoMo, its recently floated despite continued civil developer, Manila Electric, Shares in Fuji Heavy mobile telecoms subsidiary, unrest, although dealers said Industry were hit by news continued its rise, up Y10,000 the government had sup- Metropolitan Bank and ported the market by buying Trust.

changed, but the day pro- composite index jumped 9.23 Two partially privatised

companies rose on interest from domestic and overseas Indonesia, the telephone utility, surged Rp125 or 4.6 per cent to Rp2,825, while Indonesia Satellite, the operator of international calls, put on Rp450 or 4.2 per cent to close at Rp11,200. The companies together account for 22 per cent of the market's capital-

been encouraged by the steadiness of the ruplah and further indications that interest rates would fall. MANILA fell for the second session running as profits. The composite index closed 35.79 or 1.9 per cent lower at 1.886.0, adding to

Tuesday's 2.7 per cent fall.

The exchange had climbed

20.7 per cent in the previous

Brokers said investors had

13 days' trading. Losers included Philippine Long Distance Telephone, the power distributor, and



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attending of the relial lime had the year.

Profit-taking has a

partly blamed for

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http://www.FT.com

Annual review

shelter Anniversary year Contained their residents of the Could prove to be a turning point

Turkey has so far escaped the worst of the emerging markets turmoil. But despite earning the praise of the IMF for its skill in 'adapting to changed circumstances', it is not out of danger yet. In 1999, growth and the pace of reform both look set to slow. Reports by Leyla Boulton

be intropent changed as the the end of key Seventy-five years after the stablishment of the Turkish Republic, the country in ciliatia's gains late the to the per cent of can point to a chequered Bod wana's slowed to record in achieving the goals

set out by its founder Mustafa Kemal Ataturk The soldier-turned-statesman sought to lift the country from its role as the "Sick Man of Europe" to equal partner of the leading west-

arn powers. Three-quarters of a century later. Turkey has the second-largest army in Nato after the US and an impressive private sector economy operated by a well-educated middle class and a skilled labour force.

Ranked 17th in the world in terms of gross national product, Turkey is, however, of November from San also the only big market The state which cabse ! acconomy to still suffer from diouble-digit inflation in spite of which it has defied all county markets, exist. beath Attau have been odds by growing at 6 per cent a year. While it was one of the first developing countries to liberalise trade in the 1980s, it was one of the last in seriously beginning to privatise its large state-con-

An overblown bureaucracy. and state control of the economy have fed corruption and alleged mada godfather. The organised crime. "The state outcome of the elections, in is corrupted because every. which the Islamist Fazilet body needs it to be," (Virtus) party could win the

explains one unusually candid Turkish banker.

Before it fell last week, the coalition government of Mesut Yilmaz, the centre-right prime minister, made rare progress not only by reducing inflation but also in tackling overdue structural reforms. A new tax law which it steered through parliament is expected to significantly increase government revenues. It privatised dozens of state-owned enterprises before the programme ground to a halt under the weight of the emerging markets crists and corruption scandals at home.

The government also concluded an agreement with the International Monetary Fund designed to monitor its economic progress and improve a credit rating which until three months ago was lower than Russia's.

In 1999, however, both growth and the pace of reform look set to slow: Elections scheduled for April 18 are likely to follow a period of rudderless government following the loss of office trolled sector little over a by Mr Yllmaz, accused by his political opponents of improperly intervening in a bank sell-off involving an which the Islamist Fazilet

more privatisation.

of not pegging its currency far. But despite earning the out of danger yet, prompting the IMF to call for "further vigilance".

Prospects for further vig-orous reform to help fend off

"There is a danger that

for Turkey," warns Percy Barnevik, the chairman of Sweden's Investor group who takes a keen interest in this nation of 60m, "Inflation is an obstacle to Turkey's full membership of the European Union and the level of foreign direct investment that Turkey deserves. If Argentina and Brazil were able to bring inflation down to single digits, I'm sure Turkey can do it too."

including Fazilet, say they want lower inflation and

reduced exposure to foreign capital, but also to its policy. to the dollar, Turkey has escaped the worst of the amerging markets turmoil so praise of the IMP for its skill cumstances", Turkey is not

further external shocks remain unclear, however, because of the political

the Turkish central bank, put it recently: "An even stronger commitment to sound macroeconomic policles together with structural Most political parties, reforms and more active use of monetary policy would

nal developments. It would Partly thanks to its also force the international

> more serious about differentlating between us among the other [emerging mar-Yet Mr Ercal already sees some "green lights" for Turkey in the international market place. Last month, Turkey was one of three emerging markets - together with Brazil and Argentina - to successfully tap

markets with a DM600m surobond issue. It also stands a good chance of receiving a share of the As Gazi Errel, governor of international

international

increase the economy's abil-

Ity to weather adverse exter-

market place to become

capital

earmarked by the IMF to help deserving emerging markets stave off contagion

from less healthy economies. Turkey wants external financing of this kind to help it convert more of its expensive domestic debt into cheaper foreign loans. An improvement in

Turkey's relationship with the EU, the country's biggest trading partner, has been another qualified success in the international arena. This will speed progress in deepening a customs union that will eventually absorb Turkey into a single free trade sone with the EU.

The EU is expected to free long-delayed aid funds designed to ease the necessary adjustments for Turkey. Rarlier this year, it softened a controversial decision ranking Turkey's membership application beneath that of less funds developed eastern European nation confidence

But the bitter dispute which erupted last month over Italy's failure to extradite Abdullah Ocalan, leader of the Kurdish PKK guerrilla group, to Turkey, shows just how fragile

EU remehi. Turkey's defensiveness in foreign policy is also a symptom of a wider malai in its political system, which is too weak for a more long-term approach to either domestic problems or tensions with the outside

Ishak Alaton, veteran chairman of Alarko Holding, a construction and heating congiomerate, says the time is ripe for politicians to adopt a more humble attitude to the world.

"During the early years of Ataturk's republic, there was a need to give the

One Turk is Worth the World. If you try to sell that mentality in the year 2000, when one Norwegian is worth 16 Turks in GDP terms, you get nothing but

Ankara's relations with the Yet this anniversary year may also prove a turning-point for Turkey. Many Turks hope that scandals over recent corruption and mafia involvement in privatisation

 based on new evidence of links between business. government, and organised crime - may prove a catalyst for an Italian-style cleansing operation and perhaps even political reform. Husnu Ozyegin, the founder and chairman of Finansbank, a relatively young middle-tier bank, says the way in which "these things are discussed in the media and prompting resignations of ministers

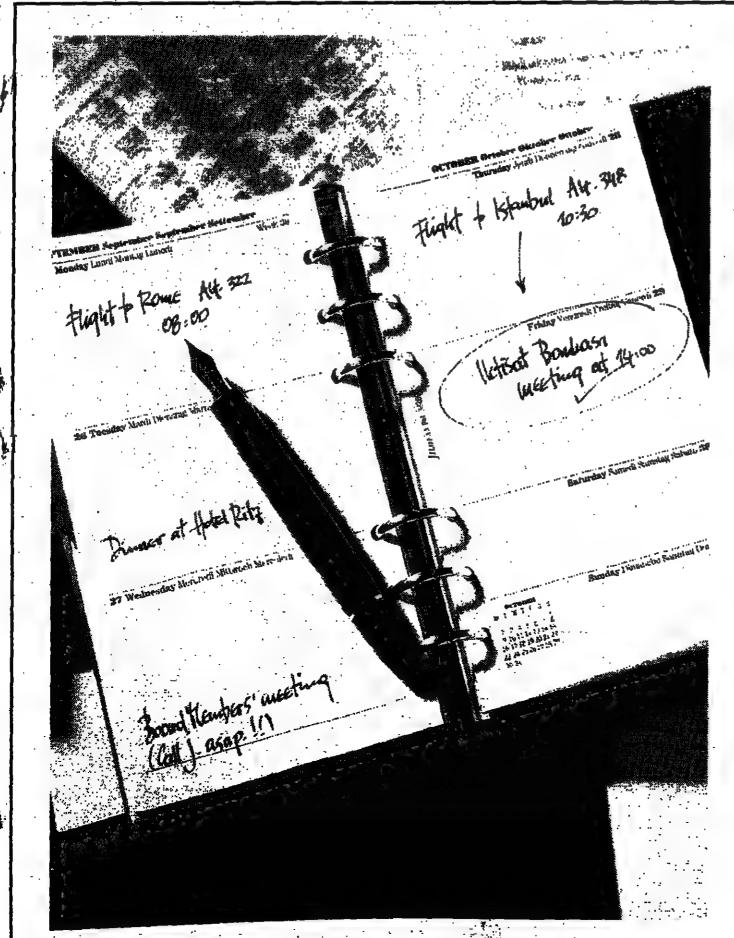
shows that democracy is

working in this country A more discriminating

approach by investors to emerging markets in an integrated world economy also turns up the pressure on Turkish politicians to remove handicaps for companies at home as they increasingly venture on to world markets.

Many believe the country's salvation lies in the coming to power of a younger, better-educated generation which is already taking over the running of the private sector from older more traditional managers.

"This transformation is business and will happen in politics and the rest of society," says one western banker . "Turkey is a young democracy. Like a teensom making all the mistakes you would expect him to make,



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|------------------------------------|-----------------------|--------------|--|--|--|
| | June 30, 498 | June 30, '97 | | | |
| Income before taxes and provisions | 92.4 | 36.3 | | | |
| Shareholders' equity | 158.8 | 105.3 | | | |
| Deposits | 654.4 | 488.4 | | | |
| Loans | 508.4 | 429.1 | | | |
| Total Assets | 1337.4 | 963.0 | | | |

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Markets crisis underlined vulnerab

Turkey's main economic problems remain high inflation and unsound public finances

of a moment of truth for which keep its cost of bor-

Although Turkey is one of the oldest and most investors. advanced emerging markets, the international turmoil high inflation, a lack of tarred it with the same brush as market economies nies, which are crowded out which were far less developed. When the crisis hit by government borrowing, neighbouring Russia, the Istanbul stock exchange lost 55 ling structural problems per cent of its value between ranging from privatisation August and September. Treasury bill rates which had the country cannot afford. fallen to 75 per cent in July Inflation in turn has contribjumped to 140 per cent - translating into a real interest rate of 50 per cent. Before that, Turkey was

being overtaken in the race to join the European Union by more recent east European applicants. It even had a lower credit rating than Russia until Moscow defaulted on its debts as Turkey continued to meet its cent two months ago. Wholeobligations without a hitch .

In the past month, investors have begun to retreat over the same period. Turfrom generalised panic over emerging markets and are taking a more discriminating approach towards the stronger economies. But the

The emerging markets crisis to external shocks until it has represented something fixes domestic handicaps rowing high and obscure its attractions for potential

The handicaps include

long-term finance for compaof domestic capital markets and slow progress in tackto a social security system uted to social tensions by making most Turks poorer. A weak political system means that politicians are often driven by short-term considerations, a trend the government of Mesut Yilmaz

sought to buck. It reduced consumer price inflation from 93,2 per cent in October 1997 to 76.6 per sale inflation was down from 87.5 per cent to 62 per cent key achieved a primary budget surplus of 4.6 per cent this year from zero the year

Charles Blitzer, director of

rette, says: "Turkey has cent for Malaysia. The curbeen one of the hardest rent account deficit remains emerging markets to understand largely because of its around 1.5 per cent of gross high inflation and also domestic product. Even after because of political noise which together have painted it as unstable politically and macroeconomically.

Yet the political turmoil in Turkey is more apparent than real and changes in government have not led to substantial changes in economic policy. Very strong growth has been fuelled by the private sector."

Turkey's main asset is a dynamic private sector economy which is increasingly able to compete on world markets. David Edgerly, head of the Istanbul office of Alliance Capital, a US fund manager, believes that Turkish entrepreneurs are in an ideal position to benefit from the international turmoil because "they are masters at situations that change 180 degrees overnight".

Yilmaz Argüden, chairman of Erdemir-Arge, Turkey's biggest steel producer which is also a candidate for privatisation, notes that the country "is not a typical emerging market" in that it is much less leveraged and therefore more resilient to external shocks. Its ratio of private sector borrowing to

manageable at \$3.5bn, or at \$6bn in hot money left Turkey in the wake of Russla's financial meltdown, central bank reserves stabilised at about \$22bn. Skilled management of the exchange rate

Most Turkish politicians agree that bringing

down inflation must be a national priority

- Turkish exports have remained competitive because the lira has not been pegged to the dollar - also helps to explain why Turkey managed until recently to grow at 6 per cent a year in spite of its high inflation, even though economists are quick to point out that the country could have grown even faster if inflation had been lower.

Ajay Chhibber, the World Bank director in Ankara, argues in a paper* published crisis underlined just how emerging markets research total borrowing is 1.5 per next week that "Turkey vulnerable Turkey remains at Donaldson, Lufkin & Jencent, compared to 33 per could have easily moved

growth rates seen in countries like Korea if inflation picture: the government had been brought below 30 per cent and Turkey's public per cent of gross national finances had been used to generate growth rather than repay expensive domestic

Turkey's main economic problems remain high infla-tion and unsound public equal to 35 per cent of GNP. tion and unsound public finances. Most Turkish politicians agree that bringing down inflation must be a national priority although few are prepared to stomach tough measures to achieve this A national consensus favours a policy of gradual disinflation adopted by the government. In the meantime, the expected slowdown in the economy in 1999 has prompted the government to revise its 1999 growth target to three per cent from 4.5 per cent. Its inflation goal for next year has been raised to 35 per cent from 20 per cent. Although the government

also achieved a primary budget surplus of 4.6 per cent this year up from none at all the previous year, the consolidated budget deficit remains above 7 per cent of GDP because of interest pay-

An immediate challenge facing Turkey is to try to convert more of its expensive domestic debt to cheaper foreign loans, Mr

anomaly" in the overall debt pays the equivalent of 12-13 product servicing a domestic debt which represents 25 per cent of GNP. It pays the equivalent of just 2 to 3 per cent of GNP in servicing a

Turkey's successful return to international capital markets last month gives the authorities some hope that they will be able to borrow more money from abroad in future.

Observers and Turkish officials also hope for a resumption of funds from privatisation next year after an ambitious programme ground to a halt earlier this year under the twin impact of the emerging markets crisis and allegations the government acted improperly in the \$600m sell-off of Turk Ticaret bank,

Muharrem Kayhan, the head of Tusiad, Turkey's business confederation, is not alone in identifying reform of the state pension system as the single most important remaining structural challenge.

He describes as "economic suicide" a retirement age set at 38 for women and 42 for men. He reckons that raising the eligible age for a state

far-sighted institutions have

more obvious feeding troughs for Turkish banking.

The reason for this, says

Isak Antika, managing

director of Chase Manhattan

Bank in Turkey, the

foreign-owned bank, is that

"banks will have to find a

Hüsnü Akhan, president

and chief executive of

up its loan portfolio at the

expense of the lucrative but

more short-term business of

landing to the government.

The ratio of profits from

already up to 29 per cent

from 18 per cent a year ago.

understanding that once we

do it much of our resources

will be allocated to customer

business and we are giving

up some of the profits that

would come from investing in T-bills," says Mr Akhan.

"We are doing it on the

biggest

country's

operations'



anbul street vendor: inflation has contri by making most Turks poorer

60 for men would save Turkey \$60bn over the next 12 years. Currently the system makes a \$5bn a year contribution to the budget deficit.

He complained however that politicians are reluctant to take on the problem because of "an inexplicable fear that this will cost votes although somebody is going Sooner or later you will find to make \$60bn and those funds will be used in Tur-

Given the country's potential and problems, it is not don +44 (0)171 516 8420 or far hard to understand why

pension to 55 for women and most observers say they are optimistic about Turkey's prospects in the long-term and pessimistic in the short term.

 $\mathcal{A}^{(k)}$

"Turkey is virgin territory," says Mr Edgerly of Alliance Capital. "Nobody has been here before. It's very hard to find a good deal in say Spain or Portugal. a rash of transactions here." * Emerging Turkey 1999 to be published by Oxford Business Group, 29.99 Telephone: Lon-

BANKING

Overcrowded sector ripe for restructuring

Changes long overdue could be precipitated by disinflation and the squeeze on foreign lending to banks in emerging markets

in Turkey's overcrowded uating the ill-health of statebanking sector. Interest rates are around

140 per cent although infla- thing from agriculture to tion is just 80 per cent.

The eight largest of a total of 75 banks account for 60 about 5 per cent of the sector are under central bank further sell-offs on hold.

owned banks which provide aubsidised loans to everysmall business.

Much needed privatisation of state-owned institutions per cent of the industry's has started at last but assets, while an unidentified allegations in recent weeks 12 or so banks representing of malia involvement in a couple of bank sales has put

Following the successful As the country's biggest inroads made by the borrower, the government is government of Mesut believes Brazil's victory in when deflation hit we saw crowding out finance for the Yilmaz, prime minister, into the early 1990s over liquidations

multi-currency check receivable

a) A Japanese bank in New York

b) An English bank in Singapore

An American bank in Tokyo.

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where all the benchmark transactions come from?

d) None of the above

believe experts restructuring of the sector is

iong overdue. Such change could be precipitated and the recent squeeze on foreign lending to banks in emerging markets.

securitization deal in the world?

There are many distortions real economy while perpet inflation - which had double-digit inflation offers bankruptcies." per cent - some banking anti-inflation campaign continues.

"There were many middle-sized banks in Brazil that could no longer make it in a deflationary combination of disinflation environment because they were in the business to buy government paper," he says. "They weren't performing

John McCarthy, head of the intermediation role a ING Barings in Istanbul, bank normally performs, so

previously shown signs of an illustration of what Restructuring of the banking change, whether slow or being stuck at around 100 Turkey could achieve if its sector would be part of a fast, some of the more Restructuring of the banking change, whether slow or virtuous circle because a lowering of inflation would already begun cutting their also imply a reduction in costs and trying to develop government borrowing, market niches outside the freeing funds for the real

> "The government is competing with the private for finance," complains Kenan Koç. general manager of Edip, a yarn manufacturer with annual turnover of DM50m.

"If the government is better reason for existing paying 130 to 140 per cent a than simple trading room year, you cannot finance yourself at lower rates. This problem has existed

for three or four years but Korfezbank, another markets crisis] there was it has been moving to build ney coming from [banks in] Europe so it could be directed to the real sector. Now even that has stopped." Erhan Ersöz left a secure lending to total profits is banking career as head of

summer to set up a consultancy specifically geared to advise on mergers nd rationalisation in the But opinion varies as to how long Mr Ersőz may have to wait for his business to

tressury at an Istanbul

investment bank last

take off. He expects 80 per cent of banks to see "radical changes in their shareholder structures" in the next two Other bankers remain sceptical that change will

occur quickly or at all. "If we were living in another country, logically I would say there will be consolidation," says Hüsnü Ozyegin, chairman and founder of Finansbank, a middle-tier bank. "But Turkey is the only

country where a banking licence is worth 60 to 100 million dollars, so things may work out differently here. There are a lot of small but very healthy banks...Yet the fact that 20 healthy banks have gone into retail business in the past two years is a threat for the whole industry including the big banks." Gazi Erçel, Turkey's

smooth-talking central bank governor, argues that restructuring will be so eradual as to be undramatic. The disinflation process

should be gradual so the banking system and the real sector will have a chance to adapt over the years." He adds, however: "If you

look at banks' balance sheets, the maturities of their assets and liabilities are very short so they can adapt very quickly."
The International Monetary Fund, which has

just begun monitoring the Turkish economy on a regular basis, sounded alarm bells on two fronts in a first report in October. It warned against the

"distorting" effects on the banking system of large state-owned banks such as Ziraat and Halk, which provide artificially cheap loans to agriculture and small business.

It also cautioned against Turkish banks' over-reliance on risky foreign exchange

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TURKEY: THE INSIDE TRACK

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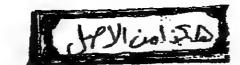




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Still reaching for the stars

An ambitious privatisation programme has been stalled by the economic crisis and domestic scandals

The starry dome which in Istanbul suggests that the sky is the limit for this 12-

year-old market's ambitions. Before the emerging markets crisis broke earlier this year, the Turkish stock mar-ket in 1997 rewarded investors with the world's second highest rate of return after

But, while losing 55 per cent of its value from August to September under the impact of Russia's subsequent economic meltdown, the Istanbul stock exchange maintained a high level of

Exchange officials and market participants are keen to emphasise that net sales and purchases by foreign investors amounted to just \$500m of total holdings now worth \$3bn, down from \$6bn before the crisis.

Although he believes the market was overdue for a correction with price-earnings ratios of 23 at its peak, Hüseyin Erkan, executive vice-chairman at the exchange, says: "The sud-denness of the drop can be explained by psychological rather than macro-economic factors."

The exchange is so confident of the afficiency of its settlements system that it is proposing to trade securities from less-developed markets in eastern Europe, central Asia and the Middle East in a so-called "international securities free zone".

But, despite its fast growth

since its birth in 1986 to greets visitors to Turkey's daily trading, the market lavish new stock exchange remains small compared with its potential

> With inflation hovering at double-digit levels that have some out of fashion in most other parts of the world shares held by Turkish investors account for only \$3bn of total savings of \$160bn. The rest of the nation's savings are kept in. bank accounts or under mattresses in the form of gold, jewellery and foreign currency. And these proportions are unlikely to change, says Mr Erkan, until the inflation rate comes down and draft measures to protect the rights of small investors are

> "Imagine 100 per cent interest rates and yields of 3-4 per cent," he says: "Why would you come to the stock exchange? Nobody's going to wait for 25 years in this country (to realise long-term

Mehmet Sami, vice-president at Ata Invest, a Turkish brokerage, says: "The only bad thing you can say about the market is that there is insider trading [even though] it is relatively well handled and there are laws and regulations to stop it happening." This, together with high inflation, is what helps to make the market more volatile as Turkish investors seek to cash in on short-term price movements.

The market's 15 per cent plunge in response to the



Yilmas, the outgoing prime minister, was a classic illustration of that volatility. But the news that drives the market is sometimes less transparent.

The quality of the companies is good and so is analyst coverage," says one western trader who specialises in Turkish equities. But Turkey does not trade on fundamentals, but on news.

"You need access to Turks who give you the right kind of news, otherwise you get taken unawares." Mr Erkan reports that

Turkish shareholders trade 10 times as often as foreign investors even though they own the same amount of stock. Meanwhile, only 121 of the country's 500 biggest companies are traded on the publication of corruption exchange, with mediumallegations against Mesut steed groups accounting for from 90 per cent.

the remaining 157 stocks

For many Turkish companies the advantages of being privately held, such as lesser transparency, outweigh the benefits of going public and raising money more cheaply than borrowing at interest rates now at 130-140 per cent.

An ambitious privatisation programme, in which one flotation alone - Turk Telehom - could double the marhet's volume, has been stalled by the combination of international economic crisis and domestic corruption

Yet the signs are that change, albeit slow, will continue on all fronts. In the past 16 months the coalition government of Mr Ylimaz has lowered wholesale price inflation down to 60 per cent

A further gradual reduction in inflation and more privatisation remain the acclaimed goals of most pergeneral elections due early

next year. tion has also been submitted to parliament by the govern ment and, although it may not be passed before the elections, it too is likely to reappear on the parliamentary agenda next year.

Amendments to capital markets law would ast up an investor protection fund to guarantee investors' savings if brokerages were to colhapse as 12 of them did in Turkey's home-grown financial crisis of 1994.

family-run busine

it would also provide for the immediate liquidation of brokerages' financial assets in the event of bankruptcy in order to avoid the longdrawn court proceedings of the sort that have so far tors hurt by 1994 brokerage

Mr Erkan sees the lack of a repeat this year of any of the electricity sector." the dramatic events of 1994 Loud Turkish lobbying for as a sign of how much stron-

ger the regulatory system has become in just a few On the corporate front. more and more Turkish companies are coming round to the view that the advantages of going public outweigh the

disadvantages, particularly as a younger generation of sional managers takes over the running of old-style

Archaic legal system delays sell-offs

Demand has grown nearly four times as fast as in the EU and privatisation is seen as the way to satisfy it

As Europe's fastest growing energy market, Turkey can be compared to a glass that is half empty in the short term and half full in the long

On paper it is a most attractive place for market participants. Apart from straddling crucial energy supply routes between Europe, the Middle East and the former Commonwealth of Independent States, Turkey itself has a large domesfilled needs.

Primary energy demand has grown 37 per cent in 10 years, nearly four times as

fast as in the European Turkish energy planners say that over the next decade the country will need to invest \$4.5bn a year to build an annual average of

\$500MW in extra capacity to meet the requirements of a population which could grow to 80m people by 2010 from the present 63m. Demand for gas is proj-

ected to increase fivefold between now and 2005 with electricity consumption tripling over the same period. "The huge dimension of

thes invenments makes in more difficult to lay the burden entirely on public sources." Metin Basli, deputy head of Turkey's general directorate for energy affairs, told a seminar in London last September.

"That is why privatisation [is] a rational solution for

a new pipeline to carry Azeri oil to western markets by way of Turkey's Mediterranean port of Ceyhan has tended to overshadow inexorable, if somewhat erratic. moves to deregulate and privatise the domestic energy

Barmarked for privatisation are dozens of power plants and Tupras, the stateowned company which conitrols four of the work to be ready.

Yet foreign investors and executives at home are frustrated by obstacles to faster change while households around Turkey continue to suffer from occasional power

An archaic legal system which can only be reformed by amending the constitution poses the main threat to

progress.
Of 10 deals, worth a total value of \$1.2bn, to transfer the running of power plants to private sector companies for 20 years, seven are still awaiting approval by the Danistay, or administrative

The transfer of operating rights will inject into 10 lignite coal-fired plants \$380m in new investment with the aim of lowering electricity by a third through improved technology and manage-

The World Bank has urged Turkey to focus harder on developing a new regulatory system to ensure that public monopolies are not simply turned into private monopo lies and to provide fair and independent enforcement of

the terms of contracts, Ajay Chhibber, the World Bank's director in Turkey, argues that the climate of legal uncertainty "holds people back and reduces the quality of the investor that is coming into the process".

Yurdakul Yigitgüden, under-secretary at the energy ministry, notes in response that the ministry is putting together a draft law for the creation of an independent regulatory board responsible for the whole electricity market from power generation to its distribution.

"The World Bank is also aware of how fast progress is in Turkey," he says. "If you can go fast forward, nobody will tell you you have to stop and wait for the legal frame-

The legal framework is also blamed for holding back investment in exploring for and preventing Botas, the gas monopoly, from giving up some of its monopoly to involve external partners and attract badly needed finance to meet the growing

demand for gas. The biggest privatisation attempted in Turkey and the fourth-largest in the world, the \$1.1bn sell-off of a 51 per cent stake in Petrol Ofisi, the nation's largest petrol elling as Turkish courts question its validity and the eank which was part of the winning consortium is seeking to retrieve a \$60m down payment on the transaction.

Ismail Alakoc, Petrol Offdescribing the botched privatisation as "very sad".

But he, like other industry executives, remains convinced it is just a matter of time before "the energy and oil industry are privatised and liberalised and are no longer dependent on what type of government we

politicians, operating in a system of weak government which does not encourage an appetite for radical reform. that goal can be achieved.

Ugur Bayar, head of the says it is a shame that an ambitions privatisation programme has become ground down by a political scandal over alleged corruption in a bank sell-off.

"Everything we complain about [in Turkey] stems from the public sector," he says. "This has nothing to do with the right or the left or Islamic fundamentalism or anything like that.

You just need brains to understand how obsolete heavy, and lumpy stateowned enterprises are.

BAYINDIRBANK

n December 1997. Derbank (ast. 1958) was wholly acquired by Bayindir Group which is one of the leading groups of Turkey with an annual turnover of \$380 million, mainly specializing in construction, financial services, health care... management services. energy, food, trade and

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real estate development. Today, with 40 Ragip Yergin President & GEO enterprises (33 in Turkey and 7 in Romania), employing 5,175 people in 5 sectors, the Group's activities continue to expand

After this acquisition the Bank was renamed as BAYINDIRBANK bearing the prestigious name of the Broup with a strong commitment to create another success story in Turkey likewise the first bank of the Group namely Banca Turco Romana which was established in 1994 in Romania. With the commitment of the Group the paid in capital of BAYINDIRBANK is increased to TL 13.6 trillion [\$\$1.2 million] as of September 3, 1998. With additional capital injections the capital will be raised to TL 16.7 trillion (\$60 million) by. the end of 1998. These capital injections stready gave the Bank a strong capacity to expand the balance sheet due to excessive Capital Adequacy Ratio.

With the change in ownership in the first six months of 1998, the new management team has heavily concentrated on the restructuring of the Internal organization of the Bank, the modernization of the current system and the renewal of the procedures for all of the operations including a brand new credit policy. Approximately 300 experienced and skilled employees are recruited and trained to better serve the domestic and international client base. Total number of employees reached 383 as of October 1998, BAYINDIRBANK has also started its own Management Trainee Programs through which 49 Managament Trainees were trained in 3 groups until so far, selected from among thousands of outstanding university graduates who sent their applications to the MT program.

BAYINDIRBANK will introduce an entirely new vision to the current definition of banking in Turkey with a corporate banking focused strategy supported by investment banking products and particular emphasis on addressing the needs of the service oriented sectors like tourism, health-care. energy and construction.

Recently, there has been a strong tendency in the Turkish banking sector to concentrate on private banking services. at the cost of neglecting the needs of the corporate clients which clearly defines BAYINDIRBANK's market niche given its corporate banking focused strategy. Strong management and organization will also enable the Bank to be more effective and responsible to its customers' needs by facilitating faster decision-making.

beneficial relationships with its corporate clients by developing

specific products and providing project finance acting as a consultant and an intermediary bank for its clients' domestic and international institutions having appetite for investments in safer emerging markets like Turkey: Domestic and international cash management is also an important area, in which the Bank shall be active.

The main target of BAYINDIRBANK is to have presence in

all emerging cities in Turkey where exporters and importers are dominating the activities in the market. With this purpose by the end of 1998 BAYINDIRBANK will have 6 new branches in addition to the existing 10. The total asset size is projected to reach approximately \$ 200 million by the end of year 1998. while the capital base will be around \$ 60 million, net profit for the year around \$ 5 million whereas the loan portfolio will stand at \$ 100 million to its selective corporate client base. After reaching a certain size the Bank will look after opportunities of partnerships with foreign banks, in this context, the Bank already cooperates with Banca Turco Romana by establishing reliable links between the corporates in Turkey and Romania for their payments and documentary businesses which leads to remarkable market share growing steadily owing to the trade between the two countries. This synergy will further grow with more regional coverage as new banks will be established in the Belloans by Bayındır Group.

BAYINDIRBANK's good for the year 2000 is to have 30 branches and to be among the top 4 preferred banks of its customer base. By the year 2003, with 35 branches, 1000 employees. and a total asset size of \$ 1 Billion BAYINDIRBANK aims to be among the top 5 medium scale banks in Turkey.

Baynderbank will be developing its activities in close cooperation with BSI (Baynobs Securities Inc.), which was established in 1991 as a brokerage house to serve demestic clients. (5)'s growing presence was confirmed in 1995 by its authorization to participate in Central Bank open-market operations as one of the nine securities houses: BSI is also among the seven securities houses to be granted with the right to distribute the public offerings of T-bills and bonds by the Frasury. In 1997, under Mc Kinsey's. supervision to Baymeir Holding. BSI was asstructured to become a premier investment house, proyiding its domestic and international clients with top quality. brokerage, superior research and carporate finance as well as investment management services. At present, BSI is one of the most successful and reliable players in the Istanbul Stock Exchange, in line with Baymoirbank's target of achieving a focused international presence, BSI has already taken necessary Steps to set up and/or acquire brokerade houses in a number of emerging markets. The company will make use of Daymorbanic's distribution network in reaching its individual and corporate clients. The target of BSI is to rank arrang the top 10 brokerage houses in the ISE coverage by the end of 1998, and BAYINDIRBANK's strategy is to establish long term mutually then to move to the top 5-by the end of 2000.

A simple word for business

Considering lighents in Turkeys largest private - Europe, an lighent branch in London, and nearly voted the most trasted bank in the country, we are transactions. And out all-inclusive electronic one of the major participants in the steedy and — network as well as phone and modern linkup

A leading position both in Turkish privatizations of the globe. and in the Istanbol Stock Exchange, reliability,

expertise, and a comprehensive range of services Wherever you may be, you won't find a simpler from brokerage to custody make us the prime — word for business than the Ig in our name. choice for insemational investors. Our subsidiary — And Işbank will always spell better, fazter. Isbank Grabit in Germany with 17 branches across—supporther business for you.

commercial bank, ig's no wonder that our name 1.300 correspondent banks worldwide help us hold means the Business Bank in Tuckish. Consistently an impressive share of the country's foreign trade spectacular growth of Turkish accessing. interactive banking services provide our customers with on-line real-time access from any corner

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No quick bucks but good long-term prospects

Changes are slowly but surely modernising the business landscape

should be a goldmine for sellers of consumer goods.

With a fast-growing popurelatively unsaturated market. It buys only 20 per cent level that western investors of Mexico's shampoo consumption a head and uses 20 per cent less detergent than Poland, a nation half its size.

Turkey's location, straddling Europe and the Middle long-term view because com-East, is another plus, ing to Turkey to make a entrepreneurial culture and says Werner Geissler, gena customs union with the European Union that will subsidiary of Procter & Gameventually make Turkey ble, the detergents, snacks part of a single European free trade zone

The list of challenges to market - ranging from double-digit inflation which makes bank borrowing pro-

nated at \$1bn a year rather than achieving the \$5bn such as Percy Barnevik, the chairman of Investor group, see as more commensurate with the country's potential.

quick buck won't work," eral manager of the Turkish and personal care products

which are still awaiting you are doing there." long-promised price deregulation, have lost money in teamed up with the powerful surely modernising Miderrisogiu, vice-president

On the face of it, Turkey ment - is equally impressive. home-grown Koc and Turkey's business landsc It helps to explain why for- Sabanci conglomerates, have Nowhere is this clearer than eign direct investment in made fortunes selling hun-Turkey since 1990 has stag- gry Turkish consumers everything from cars to washing machines.

> A senior executive at a leading Turkish retail group puts the market's pluses and attraction is that, because "One has to take a it's an imperfect market, the profit potential is bigger than it would be in Germany or the UK. With half the management talent you can make twice as much money.

investors) is that every time there is a fundamentalist demonstration in Istanbul, Some companies, such as and it is on CNN, your hoss overcome in tapping the pharmaceuticals groups will call up and ask what Yet, against a backdrop of chronic political instability

"The problem (for foreign

One of the changes is globalisation. This in turn is spurring a gradual transition

in the increasingly competi-

within Turkish companies from an older, family-dominated, style of manage to a younger, more professional generation of managers. As competition have traditionally enjoyed government protection, such as cars, even mighty groups founder Vehbi Koç started

order to survive. Although the group "did hibitively expensive for Turkey. Others, including and high inflation, big fairly well" in automotive many companies, to over- foreign groups which have changes are slowly but and white goods, Aydin

off by selling tiles to the young Turkish republic for a

new parliament building, are

for strategic planning at Koç efficiency. It is already being Holding, says: "It is a changing global market out there and the Koc group has to

change too." In a country where diversified conglomerates are not going out of fashion, this means not only doing some things better but expanding into new growth areas which Koc has identified as energy and telecommunications.

The recent liquidity crisis in emerging markets could accelerate the drive towards rationalisation and increased

viewed as an opportunity by many entrepreneurs, bringing to the fore the qualities of resilience and flexibility for which Turkish entrepre-

For example, textiles, the country's biggest industry, is likely to suffer most from overcapacity in a contract

But, while being forced to lower its prices under pres-sure from increased Chinese competition, Aril, a sports-

exports most of its annual sales of \$10m to western Europe, says it has also been buying up stitching ateliers from less fortunate competitors that were selling to Russia until the emerging markets crisis.

As competitors in the Far East suffer, Metin Caglar, chief executive of Vestel, a fast-growing computer and white goods company which aims to become one of the world's top three electronics groups, plans to buy up troubled companies to help

growth targets. But, while Turkish groups increasingly turn their sights abroad, foreign investors at a meeting of the World Economic Forum in Istanbul urged Turkey to dismantle remaining obstacles to the growth of its

domestic market.

achieve his ambitious

Faruk Yoneyman, chief executive of the Turkish arm of Roche, identified a dismantling of health ministry price controls on medicine as essential to the survival of the industry in Turkey. Mr Geissler, of Procter Gamble, which operates in an area free of price regulation, took the unusual step for a foreign businessman of urging the government to correct worsening income

distribution. "A more just distribution of wealth generated by increased gross national product is clearly the task of government so more consumers can afford to buy our goods," he said.

Hiromasa Kubota, executive vice-president of Toyota. the largest Japanese investor in Turkey which manufactures cars in a joint venture with the Sabanci group. added import controls to a wish-list that included a lowering of inflation and of

ISLAMIC BUSINESS

Emerging picture in different shades of green

Companies, like the politicians. have discovered that going Islamic can be good for business

The rise of Islam in Turkish politics has been mirrored by a surge of religion in

As well as experiencing, albeit briefly, its first Islamist-led government. Turkey in the 1990s saw a proliferation of "interest-free" banks following Islamic principles as well as the rapid growth of Müsiad, an Islamic businessman's association with 8,000 members.

But, if green is the colour of Islam, there are several key's Islamist business land- for interest-free banking. scape. Some businessmen claim to act out of genuine belief. Others say they are filling gaps in the financial services market.

Mehmet Savas, chairman of Ihlas Finans, a finance house which does not pay or receive interest but shares profits - and losses - with its customers, puts himself squarely in the hard-headed category. "Things by their banks, cannot have any relicompany may have."

He asserts that the reason Ihlas does not use interest, tion sponsored by his comproscribed by Islam, has nothing to with its owners' feelings but because they nessmen based in Istanbul shades of greenery to Tur- spotted unsatisfied demand tended to be more selfish

To emphasise the point, he says that Ihlas Holding. which controls his bank, also owns shares in a commercial bank, operates two insurance companies and plans to set up an investment bank, all of which are

charging interest. And even those busines men who like to weer religion on their sleeve - such very nature, including as Mehmet Emin Polat, chairman of Konva Sanavi gion," he says. "My chair is Holding, a provincial distriba chair and religion is just a utor of car parts - are feeling that the owners of a focused above all on making money.

involved in receiving or

At a recent Müsiad receppany, Mr Polat explained that western-educated busi-

than religious Anatolian provincials such as himself

But his main purpose in sponsoring the event, at a plush western hotel in Istanbul, was to propagate not Islam but the virtues of his company. And bankers who work with Islamic institu- now the higgest interest-free tions say that the dividing



Islamic-style charges is often instalment sales and joint

Turkish busin the politicians, have discovered that going Islamic can be good for business. Ihlas Finans, with paid-up capital of ten trillion lira, says it is financial institution in Turkey. It finances leasing,



ventures and provides vencaters for two types of customer - those who like its rates of return and religious people who do not want to make money out of interest and who, according to an Ihlas survey, sepresent 15

Both of these market segsays. "When Ihlas Finans started in 1995, there were four interest-free banks in Turkey but in spite of their existence there was still something to be got from the

With interest-free banks' eposits accounting for \$2bn out of total Turkish bank ieposits of \$60bn, he believes the interest-free market niche is now filled.

has hovered close to 100 per cent in recent years, is interest-free finance an attractive proposition for borrowers. Some 80-70 per cent of Ihlas' loans are to small and medium-sized companies, mostly, as it haptrading with western

Europe. from the concept that small is beautiful. It helps small companies which manufacture spare motor parts to sell markets by acting as their collective representative in western Europe.

Musiad has also provided Polat.

But Turkey's enduring executives from smaller double-digit inflation, which businesses with a less Tusiad, the mainstream another reason to make business confederation which has tended to be dominated by big company bosses - including Enver Oren, founder of Ihlas Hold-

Different shades of green s, companies involved in also mean differing views on politics in Turkey. Mr Savag says the Ihlas holding group The economic logic of has been criticised for Konya Sanayi Holding is declining to make contribualso in large part derived tions to Fazilet (Virtue), the main Islamist party.

Missiad also shuns Fazilet but for the completely different reason that it is not their products on western Islamic enough. "Islam means purity, fairness and justice and Fazilet has little to do with Islam," says Mr

HOW

The BASE of

TURKIS

BANKING

Turkey's largest independent private bank, Yapı Kredi has created an extraordinary

"banking base". The likes of Yapı Kredi Banking Base are to be found nowhere else in Turkey and only on a much smaller scale in a few other countries.

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Yapı Kredi Banking Base is not only the "master plan" of the next halfcentury of Yapı Kredi

but also represents the peak of Turkish banking sector today.

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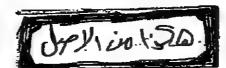
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THURSDAY DECEMBER 3 1998

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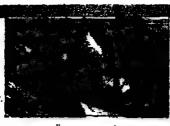
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The clean goal Industry and governments aim to beat the smog Pages 2-4



Samba sadness Economic turmoil runs through South America Page 4



Lightweight targets Use of aluminium 131 in cars increasing

Quarterly review

Fresh focus for clean challenge

The motor industry is displaying a rare example of courage in challenging its critics over the worldwide debate on environmental pollution, write John Griffiths and Haig Simonian

The painstakingly-reasserted dioxide levels by early next international commitment to century. Approved by EU cutting carbon dioxide environment ministers on emissions made at the latest. October 6, the deal is now United Nations conference on climate change in Buenos Aires has refocused the motor industry's attention on the environmental chailenges of building outstanding issues, such as save automakers billions of cleaner cars.

However, many carmakers still appear undecided and insecure in their strategies towards communicating the difficulties and costs of cutting exhaust emissions tors demanding the spending still further. And many of billions to clean up its remain wary of trumpeting what has already been industry only rarely plucks achieved in reducing levels of both regulated substances, such as carbon monoxide, nitrogen oxides and the particulates found in diesels, and the newer need to curb carbon dioxide

In Europe, that task will

from ACEA and the European Commission meet how the agreement is to be

monitored

Pilloried by single-service and congestion-causing achieved partly at the expense of the petroleum expense of the petroleum expense of the petroleum. products' act, the motor up courage to retort that the wheels of modern economies are turned largely by goods. bearing trucks, and that car drivers are not a health- the 21st century. threatening sub-species but the population at large.

motor industry economics at parliament finally reached a reach a new threshold by the Cardiff Business School, end of this year. By then, the argues that even the most stages of reducing the level European Automobils ardent environmentalist of "regulated substances" Manufacturers' Association tends to criticise from the emitted by cars. Progress (ACEA) hopes to have standpoint of his or her own finalised its voluntary convenience in farms of peragreement with the sonal mobility - from the besic idea that everyone's stringent cuts in carbon journey must be unneces-

sary, except for your own.
In the past few months, however, the motor industry has won one rare - but landundergoing some final mark and financially impor-fine-tuning as negotiators tant - victory in the battle for the minds, if not the hearts, of the legislators. It in Brussels to resolve is one with the potential to dollars in development costs

> more adroit lobbyist than the automotive sector in the EU's corridors of power but now facing costly legislative demands of its own as Brussels pursues the aim of cleaner cars and trucks for

In June the European Commission, environment Garel Rhys, professor of ministers and the European compromise on the next since the very first EU directive on curbing exhaust pollution, in 1970, has already been extensive. As Ian McAl-



Britain, points out: "Fifty new Ford Kas produce the same level of emissions as

one original 1976 Fiesta." But considerably tougher further restrictions on maximum emissions of carbon monoxide, oxides of nitrogen (the main culprit in photochemical smog), and particulates (suspected carcinogens emitted mainly by diesels) will be introduced in two stages, in 2000 and 2005. To meet them, and to undertake additional measures associated with global warming, will cost the motor industry \$80bn, carmakers told Brussels during the course of sev- lated substances much lister, chairman of Ford of eral years baggling over the

Until about two years ago The industry is still facing the oil industry appeared to that bill, but had the petrohave convinced the Euroleum industry had its way pean Commission it would the financial burden on carbe far too expensive to modmakers would have been ify refineries for what at the much bigger, Instead, having time was planned to be a sininitially convinced Bruss gle tightening of emissions that the main task of reducrules by the year 2000. Howing exhaust pollutants ever, the European parlia-

should fall on the carmakers ment, not satisfied that the themselves, the oil industry 2000 rules went far enough. is facing its own \$80bn bill to insisted on the second phase modernise Europe's refinerof tightening in 2005. It was during the course of ies to produce the cleaner, low-sulphur fuels which will debate on how the furthermake the overall technologiachieved that the oil induscal task of meeting the 2000 try's arguments finally fell and 2005 targets on reguon stony Brussels ground. in the talks, ACEA convinced

stantial cuts in pollution were technically feasible only with cleaner fuels.

Thus, by 2005, petrol and diesel fuels will have a sulphur content of just 50 parts per million - a three-told reduction compared with the year 2000 in the case of petrol and a seven-fold reduction for diesel. However, ACEA's victory

over the oil industry has to some extent been pyrrhic. In July, the carmakers' association had to reach a compromise with Brussels over what for the long term is an even more important environmental issue - exhaust

emissions of carbon dioxide. the principal gas involved in

alchal warming. Carbon dioxide is an inescapable by product of combustion; for as long as the internal combustion engine - whether petrol or diesel powers cars. CO, can only be reduced, not eliminated. Nor are cars by any means the sole source of the gas power stations, heating plants or any other facilities harning fossil fuels produce

CO just as inexorably. Nevertheless, last year's Kyoto environmental summit committed the EU to custing emissions by 8 per cent between 1990 and 2010 and ACEA has now accepted a voluntary timetable to cut emissions of the gas from new cars by 25 per cent by 2008, compared with 1995.

As the massive research and development effort gathers pace, the European-based vehicle industry considers itself justified in feeling somewhat put-upon and persecuted.

The new EU rules offectively mean the remon's exhaust emissions will be as strict as these in once smogplagued California by 2005. Yet Whereas the European industry has already produced cars with average fuel economy of around seven litres per 100 kilometres, North Americans continue to pump much vaster amounts of carbon djoxide into the atmosphere from vehicles consuming nearly 11 litres per 100km

For European carmakers, the disparity reflects what many describe as the "cowardice" of the US government in not raising petroleum taxes enough to encourage fuel-efficiency and

Continued on Page 2

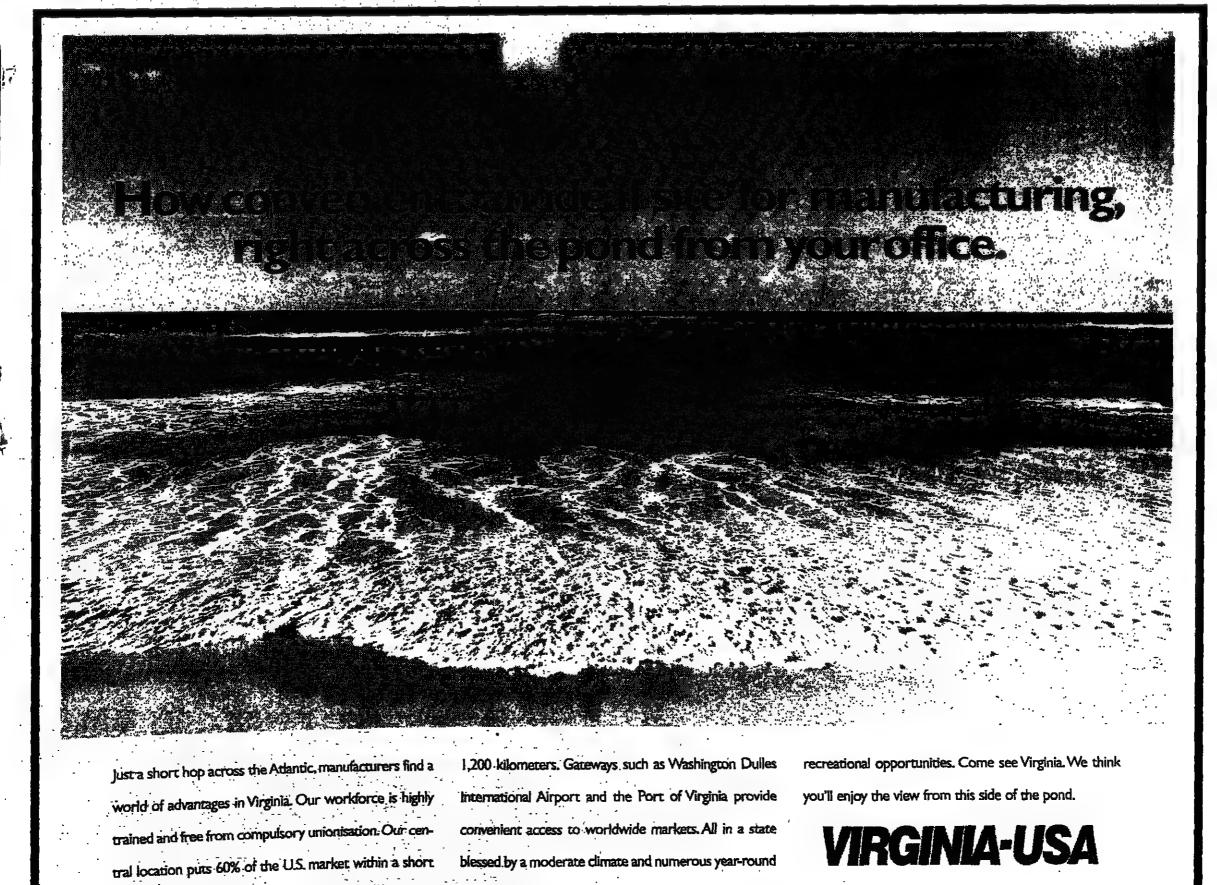
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EMISSIONS by John Griffiths

There's one goal, but a string of strategies

A heavy legislative programme is the main driver for a better environment, but the industry is warning that not all its strands are being pulled in the same direction

from cars it plans for sale in Calilornia next year may well be cleaner than the air surrounding them, it is not being entirely fan-

The radiators of its Californiabound \$80 saloons will have a cutalytic coating developed by Engelhard, the US specialist materials and precious metals group. The coating, which will converts molecules of ozone - the villain in California's notorious, albeit already diminishing, smogs to oxygen.

The faster the car travels, the claims that in the most favourable conditions, 75 per cent of ozone passing through the radiator is converted into oxygen. Add in the latest catalytic converter technology for the exhaust sys- mance which might make electem, and the "cleaner-out- tric vehicles (EVs) attractive to

alistic, says Volvo.

The company plans to extend the radiator system both more widely across its range and into

other markets. The system represents one of many different approaches the motor industry is taking to reduce the environmental toll of the automobile.

These approaches include: A concerted drive to develop fuel cells - emitting little more than water vapour as their

the more intensive use of lightweight materials to improve more efficiently it works. Volvo fuel economy of petrol or diesel a continuing, but increasingly

> dispirited, search for some form of "superbattery" capable of providing the range and perfor-

onot least, much effort is going into further increasing the efficiency and economy of petrol and diesel engines, likely to be the mainstay of car production for at least the next two decades.

The pursuit of the low-polluting vehicle is being driven very little by consumers concerned for the environment. On the contrary, the big global car market success story of the past decade concerns large, heavy four-wheeldrive vehicles with poor aerodynamics and a prodigious thirst

Thus the main driver is legislation, and as the recently-announced EU programme to clamp down on exhaust emissions in two further stages shows, the vehicle industry has little prospect of the pressures decreasing for the foreseeable future. The package agreed under the

requires a 30 to 40 per cent reduction in emissions from petrol cars and light vans and 50 per cent from diesel vehicles in its first stage, to be implemented between January I 2000 and January 1 2002. By the end of the second stage, five years later,

gen, benzene and ozone - are required to be 70 per cent lower. As their contribution to cleaner vehicles, oil refiners will be required to reduce the sulphur content of fuels - sulphur is a major contributor to exhaust pollution - by around 90 per cent. However, the legislation is more restrictive for vehicle mak-

emissions of pollutant gases -

carbon monoxide, oxides of nitro-

ers than simply cutting tailpipe emissions by the use of improved catalytic converters. Manufacturers are also being required to fit on-board diagnostic systems to

so-called Auto Oil agreement allow emissions to be checked goals of reducing carbon dioxide accurately as the car ages.
From 2000, new models will also have to undergo durability

tests after five years or 80,000 kilometres, rising to 100,000 kilometres from 2005. Not surprisingly, the motor

industry claims that the technical challenges are considerable and that the cost to the sector will be high - and inevitably reflected in the prices of new

At a meeting of European envi-ronment ministers in late October, when a commitment by carmakers to reduce emissions of carbon dioxide – not a pollutant, but the major cause of global warming - was formalised, it was against the background of clear industry warnings that legislation being planned on vehicle noise and safety would work directly against government

ALTERNATIVE FUELS by Kenneth Gooding

emissions. Nevertheless, the industry is now committed to reducing average carbon dioxide emissions from new cars from 180 grammes per kilometre now to 140 grammes by 2008 and 120 by

The strides already being made by the industry are considerable. In the past few weeks, for example, the French Peugeot-Citroen group has launched the first common rail" diesel engine for the volume vehicle market. Using technology which allows fuel to be sprayed into the engine cylinder with very high accuracy at double the pressure of conventional diesel fuel injection, the engine has 60 per cent better fuel consumption than its petrol equivalent, and 30 per cept better

Exploiting another way of gain-

ing greater fuel economy and simultaneously reducing carbon dioxide emissions - weight-say. launch the aluminium-bodied version of its Lupo small hatchback which will become the world's first commercially-available "3 litre" car - achieving fuel economy of three litres per 100 kilometres, or close to 100 miles

per gallon. Mercedes-Benz is indicating that its first environmentallyfriendly fuel cell-powered car could be on the market within six years. Toyota, with its Prius hybrid - running batteries and small internal combustion engine in tandem to achieve a marked reduction in emissions - is launching the car worldwide. The industry may be greaning

under its new legislative burthan even the latest-generation



PROFILE
JOHN DUNLAP

Golden State's clean-up crusader is moving on

A newspaper reporter asks a. | Niño phenomenon return centenarian the inevitable question: "How have you managed to live so long? "I never smoked, drank

comes the reply. The sleuth counters: "But I knew someone just like that and he died at 70. How do

and got plenty of exercise,

you account for that?" "Easy. He didn't keep at it long enough." The anecdate is a favourite with John Dunian. who has just retired from the

chairmanship of the California Air Resources Board (Carb), after only four years in the Job. Mr Duniap, also known as "chief of the smog police", enjoyed telling it to get across his message that

there can never be any easing up in the drive for clean air. But if the motor industry found his comball wisdom imitating, at least Mr Duniag's face was familier and his approach to the job

was that of a selfproclaimed "businessfriendly Republican". Now it is braced for the arrival of his successor, almost certainly a Democrat to be appointed by the

incoming state governor. Gray Davis, the first Democrat governor in the state for 16 years, ranked the state of the environment second only in his list of priorities to education, but gave few clues to his

intentions towards vehicle

The only certainty is that the conflicts which characterised Mr Dunlap's tenure will not end. The state's atmospheric pollution record - It still boasts seven of the 10 smoggiest cities in the US - and projections of population growth will make

As for Mr Dunlap's record, he may be able to congratulate himself on presiding over Carb during some of the best years in the modern history of California's air.

smog-related health warnings in the south, where the problem is worst, dipped to record lows in 1997. But the unusual weather conditions rooted in the El

only once every decade or

For the rest of the time it la businesa as usual, and that means pressure on the automotive industry. Although makers of every known pollutant device, from the lawnmower to the hairspray canister to the bar of heavy-duty soap, have been obliged to change their products, vehicle " manufacturers have had the most to do.

According to Carb data. mobile sources" account for 60 per cent of amog-forming emissions Most of the board's \$100m ennual budget and the energies of its 1,000 employees are, accordingly, directed at the automotive

in Mr Duniap's own words, a love-hate relationship has developed over the past 40 years. But so, too, has the catalytic convertor. introduced in 1975, followed by other clean-burn technologies including fuel injection and computer angine controls. In the interim, parts of the Southland have seen smog

levels drop almost 40 per cent as population has ballooned by 85 per cent. A boost was provided in 1996 when Carb forced the unilateral introduction in California of clean-burn petrol, which, it is claimed, vields 15 per cent fewer emissions than conventional

fuel, despite the protests of More recently, Mr Dunlap locked homs once again with the vehicle makers when his board said the most popular vehicles in the state - sports utility vehicles (SUVs), mini-vans and pick-up trucks - must in

future match the same mission standards as cars. Starting in 2004, existing car standards will be tightened even further and the less stringent rules for SUVs, which currently now emit up to 2.5 times as much NOx as cars, will be eliminated. Carb reckons the new standards will reduce the daily volume of NOx and hydrocarbons released from cars and light trucks by almost 20 per cent.



John Dunter: from smoggy roads to the heat of the kitcher

Although some experts say the standard will be easily met for smaller "trucks" such as the Ford Explorer, makers of popular heavyweights, Including the Ford Expedition, would be

hard-pressed and lose sales. in a ritualistic gesture, one industry lawyer proclaimed Mogical", opening the way for Mr Duniap to come back with his standard response that Carb had heard such stuff before and the industry had been consistently proved wrong.

The confrontational atmosphere enveloping Carb is perhaps inevitable. Public transport remains an afterthought in most cities, the population continues to expand, and California is certain to remain unchallenged as the biggest and most competitive single market for cars in the

And while the quality of its urban, and increasingly its rural, air consistently fails to meet federal health standards, the stand-offs will continue regardless of the political colour of the Carb chairman and regardless of his bureaucracy's

all-too-evident failings. Mr Duniap may prefer to remember the blessings of El Niño, but industry is more likely to recall how Carb was to concede only after years of bitter argument that the marketable zero-emission, or

electric, vehicle was years

in the end, after setting manufacturers scrambling for solutions, rules fixing sales quotas of ZEVs for 1998 were withdrawn and reworked for introduction in

Consumers, too, will remember Mr Dunlap for the pressure on refiners to come up with clean-burn fuels which resulted in costly refinery refits for the Introduction of the MTBE additive and, eventually, the discovery of a suspected carcinogen in water

> The 18-month-old controversy still rages as Mr Duniap, who once airly dismissed warnings of public health dangers, passes on to his new post as chief executive of the California Restaurant Association, & trade lobby group representing thousands of

After 15 years in the air control bureaucracy, Mr Dunían is to have a taste of life on the other side of the

He will represent an industry which has had its own share of problems with emissions from Its kitchens, although he will have time to rally his forces because his Carb contract forbids him from lobbying any air quality authorities for the next 12

You can step on the gas without a drop of petrol

Carmakers are getting to grips with supplying vehicles which are driven by substances such as LPG and alcohol produced from sugar beet or cane

Malcolm Novie believes he is petrol and diesel. The alternative is liquid petroleum gas.

His message is straightforward: LPG and the cars that can use it are already available in the UK. The cars cause less pollution than similar petrol or diesel private buyer, he savs.

available on most LPG vehicles, payable under the

As manager, alternative them. fuel vehicles, for Vauxhall, the General Motors UK be a problem. LPG takes up subsidiary, the cars Mr twice the volume of petrol or Noyle offers are Astra. Vectra and 2-litre Omega specially re-engineered to run on LPG as well as petrol. He insists that the performance of these models is no different from those using petrol only, He reckons to have been using LPG for 75 to 80 per cent of the 34,000 miles he has covered so far in the dual-fuel Omega he drives. It would have been nearer 100 per cent but for the need for the LPG distribution infrastructure in the UK to be developed. At present there are about 120 retail petrol stations with LPG available. The oil and gas companies have promised that by the end of next year one in 25 petrol stations will have the gas on tan.

the only person in the world tanks and associated intrusion into luggage space. who is employed by a equipment on car fleet manufacturer full time to operators' own premises sell cars using an alternative and not even charge for this if the demand is likely to be high enough, say a fleet of 10 cars using LPG. The cost of bulk LPG is, of course, much lower than at a petrol

Nevertheless, sithough LPG is the most advanced alternative fuel technology and the only one already models, and are cheaper to available in production cars cost more to buy, a user can networks, the expense of

with a factory-fitted LPG British Gas estimates it cars on UK roads. system is about \$1,500 to a costs about \$250,000 for each There is a grant of up to 75 the facilities the total cost per cent of this extra cost would be £4bn. British Gas, as a compromise, will pay private customers can use

> Storage in the car can also diesel, doughnut shaped tanks have

be excluded," he predicts. The dual-fuel vehicles will also be more common by then. British Gas estimates run. So, even though they throughout UK dealer that in five years, if the government provides the save money over, say 75,000 providing a problem right tax incentives, there miles. The extra cost of a car infrestrictive is a problem. However, environ-

Mr Noyle suggests anyone

who buys a LPG-petrol car

today will probably get £300

to 2500 more for it than a

petrol model when it is sold

in three or four years' time.

"By then petrol will be about

24 a gallon and some cities

will have clean air zones

from which many cars will

fleet buyer and £1,950 to a station, and if every one of mentalists insist that LPG the world since the 1970s. the UK's 16,000 stations had does not provide a long-term for and install facilities at petrol and diesel - although "Powershift" programme of fleet operators' premises on much less of them - and it is the UK's Energy Savings the understanding that not a renewable energy enough alcohol to make a

compressed natural gas, also being used in some dual-fuel

Suppliers will also install been developed to cut the tanks and injection technology because it is stored at high pressure.

Outside the UK. alcohol is increasingly being hailed as one of the low-emission fuels of the future. Already in North America 10bn gallons of ethanol blended petrol is used every year. Brazil has also been a big user of ethanol for many years Volkswagen says that in the past 20 years it has sold more than 2m cars in Brazil to run on ethanol blended

In the UK another form of alcohol, methanol, is used by drag racers and, like ethnnol, has been used in fuel for other vehicles elsewhere in

Both alcohols can be proanswer for the motor duced from renewable industry. LPG produces the resources - ethanol from same major pollutants as sugar beet, sugar cane or corn, and methanol from wood - but producing real impact is both difficult The same can be said of and expensive. Also, cold starting with alcohol fuels is a real problem in cold clivehicles today. CNG has the mates, while methanol is However, additional disadvantage of poisonous and highly correrequiring sophisticated sive.

Trianning the bills 210 of first indicates

Fresh focus for clean challenge

Continued from Page 1

to drive "gas-guzzlers" off the streets. The new standards being imposed by legislators on both sides of the Atlantic means car makers will have to run faster just to stand still.

That is partly because of the inherent paradox in cur- and convenience complexirent requirements. In ties. Christopher Parkes demanding greater safety

and lower emissions from the latest fourth-generation new vehicles, most notably Volkswagen Golf, for examthrough increased crash protection and the ever more complex catalytic converters to curb emissions, legislators are making cars heavier. Consumers are demanding features such as air conditioning, and other comfort

The result can be seen in

ple, which is more than 25 per cent heavier than the first model. So while combustion technology has made its engine at least 25 per cent more fuel efficient than the original Golf, little or no progress has been made in terms of emissions of carbon dioxide, as this is directly proportional to weight.

Martin Kolk, a senior powertrain engineer with BMW, says the industry has reached the stage where there are now three times as many engineers working on the emissions elements of new engines as those developing the engine itself. But with so many masters to serve, it remains uncertain whether the industry can ever win.



eing resolved LEGISLATION by Mark Suzman in Washington

lime to reconsid

US stage is set for a new face-off between car producers, regulators and consumers

stry alike.

the harmonia harmonia national national pollutants.

trends for the powers millennium.

designed to reduce pollution that the have long argued that the have long argued that the have long argued that the made by continued have long argued that the improvements in smaller cars.

That development has now led the state's regulators to reduce pollution made by continued improvements in smaller cars.

That development has now led the state's regulators to reconsider the new rules would month the California Air built on its predecessor month the California Air only lead to additional costs in the range of \$200 for each valide car companies claim

comprehensive set reduce motor vehicle sion testing procedures,

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pollutants.

Now the Golden State is vehicles are now used by families rather than businesses. They account for nearly half of all new vehicles sold and produce of all vehicles. minimize the first polygody Since California's first control of the first polygody continued in the first polygody continued i

standards for tailpipe emisprogrammes intended to sion within the state, decided that light trucks pollution, including lower must be made to meet the tailpipe standards, tougher same standards as cars starting in 2004.

By 2007 all cars, sports

In the world of US motor and vehicle technologies. utility vehicles and light exist. And that has opened vehicle emission standards, Cars adhering to those trucks that weigh 8,500 up differences between big California is once again standards have been in pounds or less will have to US car companies. meet the same strict stan-

dards. With the EPA planning to issue its own proposals for national standards on the subject within the next few Ford, which has made furmonths as part of a new set ther technological strides, of clean air standards for all has taken a more neutral vehicles, the stage is set for approach. The companies cars = has changed the a new face-off between car are also working with oil producers, regulators and

> EPA officials say they are monitoring developments in California closely and will take them into account when they announce their own plans. The moves are worrying

vehicle, car companies claim \$1,500 is a more realistic fig-

cle to meeting the new standards is that the necessary The seven companies that Some environmental not formally admit wrong sion control technologies, technology does not yet agreed to the settlement groups charge that the fines doing, the companies said "The diesel engine indu

While DaimlerChrysler

and General Motors both expressed disappointment at California's decision to push companies in an attempt to

So far their complaints have met with little sympathy, Instead, it appears that, after a period of relative neglect, federal and state governments are intent on taking a more aggressive approach on regulating auto nissions. At least 15 states have

recently adopted regulations requiring buses and trucks to undergo tests similar to those for cars.

Only last month the EPA and Justice Department announced a record \$1bn settlement with diesel engine manufacturers, the largest civil penalty ever imposed for environmental violations. regulations.

trois designed to detect violations of the Clean Air Act from the road. instead, although they did

software that bypassed con- the EPA should have introduce cleaner new engines, rebuild some of the removed offending vehicles older ones to reduce emissions and develop new emis-

"The diesel engine indus-

were accused of designing were not sufficient and that the money would be used to try has illegally poured millions of tops of pollution into attorney general, warned, "It is time for the industry to clean up its act and clean up

gas etrol

LEGISLATION by Alexandra Harney in Tokyo

Criticised all round

The Japanese pressure groups' squeeze comes when government and industry face a variety of economic difficulties

900 at 100g als Japan is coming under reduce its contribution to a increasing pressure to series of targets agreed at improve its environmental the same group's conference

At the United Nations At the United Nations of Japan pledged to lower its 人名英格兰 医克勒曼 countries for its apparent E.E. on other kills. inability to agree to the same anti-pollution targets as other industrial nations. This follows years of emissions by 7 per cent protests from the between 2008 and 2012, and

1 1 1 Po 165 environmental community the European Union agreed that Japan's domestic laws to an 8 per cent cut. The The section of the section is the section of the s that its legislative process That its logical area the most loose environmental restrictions.

The timing of the criticism could not be worse. Japan is struggling to climb out of its worst recession since the to include diesel engine 1950s. The government is vehicles. Tokyo has also paralysed by the politics of been negotiating co-opera-tax cuts, and shifting party alliances. Corporate Japan is dogged by deteriorating. profitability as a result of the slowdown in consumer demand. There is precious replacement of expensive

> substantial tax breaks. Even worse, there is polluting more than ever. world's fourth-largest producer of greenhouse ases, which are the harmful chemicals produced by cars, trucks and factories that are blamed for a gradual warming of the planet.

The production of these cases hit a high in Japan in 50 per cent of the emissions 1996, according to the of a comparable passenger Japanese government's car. environmental agency. Between 1990 and 1996, the volume of greenhouse gas emissions rose 8.8 per cent. reaching 378m tonnes in 1996. The environmental total emissions of carbon dioxide and other harmful gases will climb a further 21

per cent by 2010. begun to adopt a more aggressive posture in only three litres of petrol. pressing for its own initiatives.

At the meeting of the UN last month Japan proposed a gained public attention in scheme that would allow industrialised countries to achieve their agreed target for emissions reduction. It has also been an active protest groups have been proponent of emissions rights trading", where air pollution from the US countries can "sell" military's bases in Okinawa, whatever part of its in southern Japan, and in emissions quota that it has

not used. But Japan was sharply ita, north of Tokyo. ence delegates and the issues gripping the Japanese media for its own plan, government are resolved, the known as the "clean devellocal public and private secopment mechanism". Aust tor will be the best hope for accused Japan of trying to anti-pollution measures.

in Kyoto in December 1997.

At the Kyoto conference Climate Change over the emissions from 1990 levels past two years, Japan has by 6 per cent by 2010 -been criticised by other among the lowest targets of the industrialised countries. . The US, which is the world's ducer, said it would reduce age 5.2 per cent reduction

target.
Japan has also introduced. substities and tax breaks for low-emission cars and trucks, and has recently expended these programmes and China to introduce antipollution measures.

Critics say the Japanese government is dragging its feet in implementing environmental legislation, and little funding for the that the private sector and local groups are responsible for most of Japan's progress equipment. Or even on environmental issues. : Steel companies, for exam-

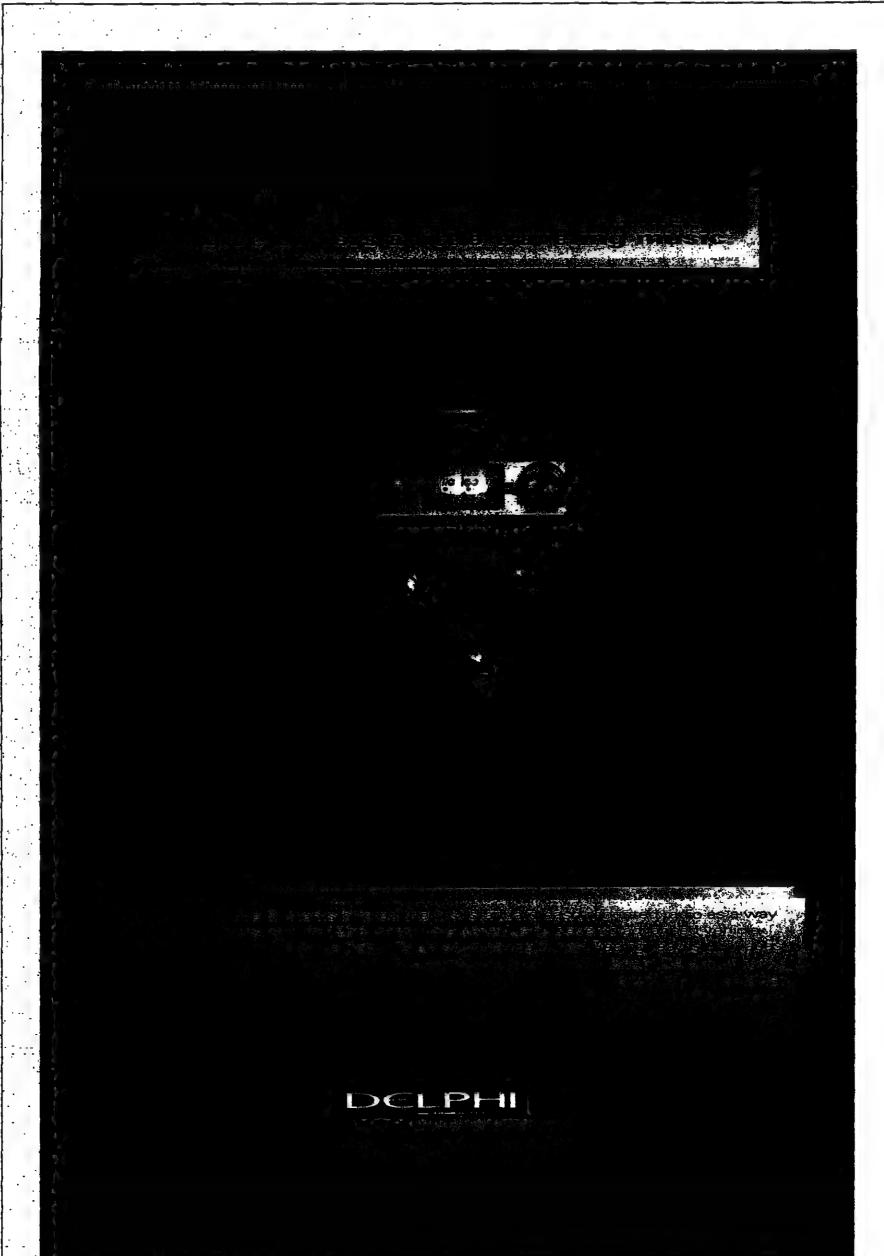
evidence that the country is ple, have been improving efficiency and increasing use Japan is believed to be the of blast furnace electricity generators. Toyota, the country's leading carmaker. has launched the world's first mass-produced hybrid vehicle - powered by both an electric motor and a gasoline engine - that the company claims produces only

Mitsubishi Motor, another leading carmaker, manufactures several engines using a gasoline direct injection technology that lowers fuel consumption by 35 per cent agency also expects that and reduces the production of NOx by 97 per cent.

Nissan Motor makes a similar direct-injection engine that, it claims, improves fuel Despite its difficult economy by 50 per cent. The position Japan has recently group has also developed a car that can travel 100km on

Citizen activist groups, which have been pressing for policy change since enviclimate change convention ronmental hazards first the 1960s and 1970s, continue to influence local legislation, use foreign aid monies for particularly in the regions environmental pollution outside of Tokyo. The resimeasures in developing dents of Maki city, for examcountries, and thereby ple, voted down the construction of a nuclear plant in their city in 1996. Other active against the noise and air pollution from the US the areas surrounding the international airport at Nar-

Until the larger economic tralia, and other countries, progress on much-needed





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Mag

VOLKSWAGEN by Haig Simonian

Lupo shows miserly nature at the pumps

future took its bow at the Paris motor show in September. The "3-litre" Lupo does not refer to the diminutive hatchback's engine size, but the fact it ill be the first production model to consume less than three litres of fuel per 100

Having broken through this "barrier" VW is not, however, resting on its laurels. Sometime next year the group's Audi executive cars subsidiary is expected to unveil its A2, an even more radical solution to the problems of pollution and fuel economy, which will have an unconventional body shape largely made out of aluminium.

For the time being, the Lupo has given the VW group a head start over most competitors, it has also fulfilled the embition of Ferdinand Piech, VW's abrasive group chairman, who, as Audi's boss in 1991. first set the company the target of developing an

ultra-frugal car. Based on the standard Lupo hatchback, which has ust been launched (and is same vehicle as the Seat Arosa made by VW's Spanish subsidiary) the

3-litre Lung achieves its extraordinary frugality in three main ways.

First, weight has been cut to the bone. Although sticking to conventional ste for much of the body, VW has opted for the latest technology. However, some important body components such as the bonnet, tailgate, doors and bumpers, are nade from more esoteric ichtweicht materials. including plastic, aluminium and magnesium.

The super-economical Lupo also differs from conventional counterparts because of its wind-cheating eatures, such as unusually rounded bumpers. A new clean-burning 1,200cc diesel engine lies at the heart of the 3-litre

Lupo's fuel economy. The three-cylinder, high pressure direct injection turbocharged matar delivers 45kW (61 bhp) at 4,000 rpm. Coupled with a five-speed automatic/manual gearbox, the car uses 2.99 litres of diesel per 100km. With a

provides a range of about 1,000km between fuel stops The high-tech engine and exceptional fuel economy also keep emissions Driving impressions have

34-litre fuel tank, that

praised the vehicle's conception and quality. But, as with the controversi Smart two-seater built by Daimler-Benz, the new Lupo's lethargic gearbox enalty of its outstanding

fuel economy -- has come in

for some criticism. Others have noted that ighting the 3-litre Lupo's flab has involved significant modification to the suspension, compromising handling compared with loss of power steering itted as standard on most Lupos - to save weight makes parking a drag. should become available

As ever, however, economy has its cost: VW has not revealed any prices but the 3-litre Lupo is expected to cost about DM25,000 - about 15 per cent more than a conventional diesel-power model. Given that price disadvantage, VW does not

expect to build more than about 9,000 to 5,000 of the cars a year. irrespective of such low volumes, the 3-litre Lupo shows clever design, and is due to go on sale in Germany in the spring.

DAIMLER-BENZ by Kenneth Gooding

Necar 3 takes a drive down fuel cell road

Engineers at the Daimler Benz fuel cell project group in_Nabern, south of year been test driving in local towns a special version of the group's amaliest car, the A-class. This version is powered by a fuel cell and has been dubbed "Necar 3" (for new electric car).

Daimler-Benz decided to drive down the fuel cell route as recently as 1992 but says that, subject to a final decision next year, by 2004 it expects to put 40,000 fuel cell cars on the

road each year. Fuel cells offer one of the most attractive alternative propulsion systems to today's internal combustion engines. Potentially, cars using fuel cells would have high fuel efficiency, create virtually no exhaust emissions, but have a range and performance that matches most cars on the road today.

A fuel cell also shares many of a battery's operation, no moving parts, and an electrochemical reaction to generate power. But, unlike a battery, a fuel cell needs no recharging and will run indefinitely if supplied with fuel. The chemical reaction in the cell is the combination of hydrogen with oxygen to

produce electric power. However, so far the motor industry has been battling to solve two substantial problems - the bulkiness of fuel cells and their cost. A conventional car driven by a fuel cell today would cost about £130,000. .

Necar 1, shown in 1994, was a big van stuffed with fuel cell apparatus, Necar 2. launched two years later, was based on the Mercedes V Class people carrier, 4.6 metres long and seating seven. On its roof were mounted hydrogen tanks

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The Macor 3 is based on Daimler-Bero's A-Class small cer

which made it look heavy and bulky. Necar 3, shown for the

first time at the October 1997 Frankfurt Motor Show, is one of the smallest care available, only 3.5 metres long. Daimler-Benz engineers are exploiting the A-class double floor sandwich construction to: house the fuel cells and associated equipment, built by Ballard, the Canadian

group which is Daimler-Benz's parmer in fuel cell projects. It took a policy shift by

Daimler-Benz to achieve this feat, Ferdinand Panik, head of the fuel cell project group, says that while buses have enough space to accommodate the bulky pressurised hydrogen tanks. the best solution for cars is to turn liquid fuel into hydrogen on board the

Methanol has been chosen as the fuel for Necar 3, partly because the hydrogen conversion process is efficient and also because it is versatile and can be obtained from a variety of sources, including natural

Liquid fuel also has the advantage of giving a good driving range - 40 litres of methanol stored in the vehicle's conventional fuel tank will take the A-class 400 kilometres and it can be refueled without special

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safety measures as easily as petrol or diesel-fueled car. "Press the accelerator pedal and an astonishing 90 per cent of the system's power is available in just two seconds." Daimler-Benz claims. "In terms of driving dynamics, this puts fuel cell

vehicles on a par with conventional gasoline or diesel-powered automobiles.* However, some carbon dioxide is produced during the methanol-to-hydrogen process, so the fuel cell A-Class is not a "zero emission" vehicle. Carbon

dioxide is one of the gases blamed for global In the A-Class shown at Frankfurt, although the fuel cells were located under the passenger compartment, the methanol reformer unit, 47

centimetres high, was housed in the rear, taking up boot and back seat space. Mr Panik says Daimler-Benz will combine the reformer and catalyser in one unit which will fit under the floor of the vehicle to give exactly the same interior SD2002 25

combustion-engined models. By the end of 1999 Daimler-Benz hopes to have simplified or eliminated fuel cell components to a point where it will be possible to say whether the vehicle can be mass produced at a competitive price.

ARCG

Economic turbulence has spread from Asia and Russia to South America. FT writers report on what is happening in the main markets

BRAZIL by Kenneth Gooding

Out comes the melting pot

Uncertaintly has led manufacturers of vehicles and components to review their huge investment programmes

nination to protect the Real, the local currency, from the worst effects of global economic turmoil automotive industry into

Understandably, this has prompted vehicle and component producers to have some second thoughts about the US\$20bn of capital projects they have announced for the years 1996-2001. Total vehicle sales in Bra-

sil for 1998 are now expected to fall by 18.7 per cent from last year's level, to about 1.6m, according to the World Car Industry Forecast Report produced by Standard & Poor's DRI The drop is even bigger in

the car market, where sales are now forecast to be nearly 21 per cent below the 1997 evel at just over 1.2m. S&P DRI suggests new car. registrations will continue to fall in 1999, to 1.15m, and will not approach the 1.57m seen last year until 2001.

By the end of August, according to Anfavea, Brazil's vehicle producers' association, new car sales were 21.1 per cent below the corresponding months of 1997 at 348.943. Domestically-produced cars bore the brunt of the slump, and sales were down 25.5 per cent to 707,570 in the eight months. imported car sales actually moved up by 13.6 per cent to

Some 70 per cent of Brazil's car sales depend on cus-

The Brazilian government's impossible to obtain for some time. The country's interest rates were boosted sharply a year ago and, following the Russian ecohave thrown the country's nomic crisis, lifted again so that they are now at nearly

For potential car buyers the situation was accravated by the government's deciper cent, put up petrol sales tax by 6.3 per cent, and lift the sales tax on industrial

"The high interest rates and rising unemployment are likely to make financing difficult and force communes to postpone buying decisions, leading to lower demand for cars," says Diego Portillo, of S&P DRL

Vahicle production in Brazil has not been so hadly affected. Car output is forecast to fall by 22 per cent, from 1.68m last year to 1.3m in 1998. Total vehicle production is expected to be 20 per cent below the 2.07m of last year, at 1.65m. .The "big four" local pro-

ducers - Flat, Ford, General Motors and Volkswagen have all amounced production cuts for the rest of the year. But this was too late to prevent car stocks in Brazil rising to about 200,000 by the end of September, equivalent to 50 days of sales compared with the normal 15 days. Given this gloomy envi-

ronment, it came as little surprise when GM cancelled the \$4m investment to



however, that investment in a new car plant at Gravatai. cted. GM's annual investments in Brazil of \$500m will be maintained next year.

Meanwhile, Anili, which is to complete a plant in Parana state in March next year, has revised downwards its expectations and now ects to sell 8,000 rather, than 11,800 of the A3 models

it will profince next year. In contrast to GM's move. Databler-Bees is turning forward part of the \$1bn it plans to spend over three years to revamp its product

year instead of in 2000, taking the 1999 total to \$217m. It still seems that by 2003 Brazil would have 17 vehicle manufacturers compared with 13 in the US and 11 in the European Union, and production capacity is set to rise to 2.5m in 2001 and 3.5m

There are several factors attracting automotive groups to Brazil. To start with it has a population of 160m. the biggest in Latin America. However, even though domestic vehicle sales growth rates in the 1990s have been among the

ownership ratio of only one for every nine inhabitants This is low, not just by industrial world standards but also compared with economies at roughly similar levels of development. Argentina, for example, has

one car per 5.7 inhabitants. The automotive groups are also keen to make Brazil the centre of their operations for the Mercusur region, the free trade zone established by Brazil, Amentina, Uruguay and Paraguay in 1991 and later joined by Chile and Bolivia. With 225m consumers. Mercosur has the potrotial to become a very big car market indeed,

The recent rush to Brani has also sparked some big tax breaks being offered to automotive groups for setting up in the country. The producers also wanted to benefit from a highly-protected market before tariff barriers come down. At present. Brazil's domestic producers can import a given volume of cars without paying the substantial duty.

In the past year, Chrysler, Navister, Honda and Toyota started to build new plants in Brazil. In late September, Ford announced plans to go shead with a new plant in Rio Grande do Sul, Suzuki has outlined a project for Brazil and some component makers have also announced plans for investment or expansion. According to Mr Portillo, all this "indicates a long-term confidence in Brazil as a location for produc-

* World Car Industry Fore cost Report: DRI, 1 Hortheld Road. Wimbledon, London

ARGENTINA by Ken Warn in Buenos Aires

Market grates reverse gear

Producers have to rein in their output and reduce prices as consumers put the brakes on spending

uncertainty has dealt Argentina's auto industry a double blow. Exports to Brazil, the destination for about 50 per cent of Argentine car production, have slumped, while the local market has gone into reverse

due to rising consumer nervousness. Auto production fell 14.7 per cent in October from the month before and 26.8 per cent against October 1997. Exports for the month were down 7.4 per cent on a year ago, while sales to the local market were down 17.5 per cent.

In September, the 11 international groups that make up the Argentine industry began announcing production breaks and fewer shifts at their plants. Manufacturers also embarked on a round of price cuts, promotious and special credit deals to tempt local consumers into driving away some of their rapidly-rising stocks. "But when people are not in the mood to buy there's not much you can do to change their minds," laments one

local industry executive. Consumers have reined-in spending amid fears that the sharp economic slowdown in the second half could translate into job losses. The industry, excluding compo- Argentina and Brazil are both at nearly has benefited from invest stages in their economic developper cent of car sales are on long-term

sold to Brazil are now on sale here on promotion (special offer)."

second-biggest carmaker, accounting for 16 per cent of regional Poor's DRL But it is dwarfed by

Uncertainty over the outlook for of dollars in new plant. Brazil has made forecasting the have touched bottom, but it's very difficult to be sure." said Horacio. Losoviz, president of the Argentine Automakers' Association (Adefa). "Our worst case scenario is for a 20 per cent fall in production next year. Our best is for 5 to 10 per cent growth."

But even with the recent precipitous falls in production. Argentina will still make 7 to 10 per cent more autos in 1998 than last year's total of 446,000, according to Mr Losoviz. The record tally in 1997 was itself 42 per

cent up on 1996. ment totalling \$5bn stoce 1991 as ment where relatively modest rises international car companies have in income translate into hig rises in

problems here deeper," says Thierry which also includes Brazil, Uruguay Jadot. marketing executive for and Paraguay, with Chile and Paraguay, with Chile and Industry will continue, according to Mr Losoviz. "Companies may ease New entrants such as Chrysler

and General Motors have started Argentina is South America's production in Argentina alongside long-established makers such as Ford and Volkswagen. Peugeot and production, according to Standard & Fiat, whose cars were previously made under licence in Argentina, neighbouring Brazii, with almost 74 have taken control of their respective marques and invested millions

The quality of car building has Argentine industry's prospects next soured as a result of the modernisa-year especially difficult. I think we tion process. GM and Renault are exporting Argentine-built cars to Rurope, although in low volumes.

Despite present difficulties there are grounds for optimism over the industry's future, according to Mr Losoviz. Beyond the recent slowdown, growth prospects for both Argentina and Brazil are high, he helieves. The region's stock of cars is old and car ownership is low - only 1 car per 5.7 inhabitants in Argentine against 1 per 12 inhabitants in

Car sales are strongly linked to changes in GDP per capita, and Falling sales to Brazil have only taken a long-term bet on Argentina's sales, says Claudio San Pedro, comcompounded the build-up of stocks. future as a key supplier in and mercial director at Fiat.

global financial "The crisis in Brezil makes the beyond Mercosur, the customs union Given such strong long-term posioff the accelerator a bit, but there

will be no change in direction."
However, another question mark
over the industry remains the future of the complex trade accord between Argentina and Brazil, which calls for the auto trade between the two to be kept in balance.

This accord runs out at January 1 2000, and negotiations aimed at securing a replacement have hit several obstacles, especially Argentine complaints that Brazil's states continue to offer fiscal incentives for auto industry investment.

Although Argentina has a long history of car production, the modern industry remains a largely artificial creation, still protected by a 35 per cent external tariff on cars made by companies that do not produce in Mercosur. The prospect of ready exports into the Brazilian market is a major part of the Argentine industry's raison d'eare. Automakers are lobbying hard for continuing protection from the full blast of competition beyond 2000.

Argentina clearly aims to protect its position as a producer in these negotiations." says Peugeot's Mr Jadot. "But we believe very firmly that both Brazil and Argentina have a motor industry future."

ROUND-UP by Raymond Colift in Caracas.

Slippery slopes in the Andes

Extreme fluctuations in demand pose a problem for production planners Auto assemblers in the producing 24,000 units per prospects for growth this jumped from only 15 per in are small so we need tariff

recent years, and face an units. uncertain future as foreign competition is stepping up and protective barriers are threatening to crumble

In each of the three principal auto the region - Venezuels, Colombia, and Ecuador economic volatility has led annual production of vehicles to fluctuate dramatically.

Venezuela's automotive industry, the largest of the AC, last year grew by 162.2 per cent, one of the fastest rates worldwide. According automotive chamber production capacity, says principal cause of economic (Cavenez), sales totalled 178,034 units last year, up of Toyota de Venesuela. from 67,000 in 1996. For Chrysler, the US car three-month backlog in large share of their market

five-nation Andean year, Venezuela became its year looked good, we were Community (AC), the largest market outside the considering expanding regional customs union, have been riding on an Area (Canada, the US, and Instead, the company economic roller-coaster in Mexico) with sales of 20,746 introduced a second shift. Total sales in 1996 could

match those of last year, but demand has dropped sharply expe from 19,000 in March to fewer than 8,000 per month turers have invested some

fall by some 45 per cent. Extreme fluctuations in

demand present challenges Alfredo Behrens, president "When we had a local plant capable of demand last year, and the volume of imports has

Now, with sales having plummeted. Mr Behrens is "happy not to have expanded then". In Colombia, manufac-

now. The principal culprit: \$100m over the past two interest rates that rose years to modernise plants steeply as a result of and obtain international budgetary and political certifications of quality uncertainty. only to see demand slump. German Perez, head of Sales for the first nine only to see demand slump. Cavenez says the outlook for months of 1998 were down 1999 remains bleak. With nearly 10 per cent and only minimal economic domestic production in growth expected, sales may September was down 34.85 per cent over the previous year. Again, government budget cuts and high to the Venezuelan in planning a plant's interest rates are the

malaise. In addition, Colombian manufacturers are losing a manufacturer which has a orders because of high to imported vehicles. The

cent of total sales a year ago to nearly 50 per cent this year. Camilo Llinas, head of the Colombian Automobile Manufacturers' Association, Acolfa, accuses South Korean manufacturers of

Ecnador's production has also been volatile, falling from 33.869 units in 1994 to 18,924 in 1996, only to recover to just under 25.00 units last year. The country is expecting a decline of 20 to 25 per cent next year. Although some auto

manufacturers in Venezuela command gross profit 60 per cent local content margins of around 15 per requirement and are asking cent, Andean cannakers are only competitive behind the common protective tariff one-third of a country's new registrations is the lack of

economies of scale. The markets we operate Behrens.

protection to continue operating," says Marcelo Rovayo, head of the Chamber of the Ecuadorian Automobile Industry (CINAE).

The next year may be a crucial one for the future of the region's automobile industry. A trade agreement is to be signed with the four-nation trade block. Mercosur, which includes the heavyweight South American auto producers Brazil and Argentina-Andean manufacturers say they cannot meet Mercosur's requirement and are asking their governments to negotiate an exemption.

In addition, Andean manubarriers (35 to 40 per cent) of facturers fear trade larriers the customs union. Industry could further crumble under analysts say the underlying the guidelines of the World problem in markets where Trade Organisation. It our imports make up to markets were opened to used car sales, as the WTO stipulates, then we would all be wiped out," says Toyota's Mr

Japan and the US have been at the forefront of a fast-growing trade. Now Europe is becoming increasingly involved, to the concern of some sections of the inclustry

By the end of this year, result of collapsing demand considerable shipping companies will in developing countries ravdestinations around the the fat profits that can be Palmer, chief executive of high prices charged for new Ugland International, one of cars are encountering handling the business.

outh Ameng

That represents growth of governments. more than one-quarter over the previous 12 months. So confident is Ugland that the trade will continue to grow that it has bought its own terminal facilities near Orlando, Florida, to process used cars streaming out of five nearby auction centres at the rate of 10 a minute during trading hours. Nearly 20 per cent of those vehicles will find their way on to Ugland ships for despatch to whatever markets independent motor dealers brokering the trade can find for

From Japan, Ugland's and other carriers' ships set out laden with used cars as little as three years old - but rendered almost valueless by Japan's draconian road worthiness testing laws Subaru and Mazda - are designed to ensure that all making substantial profits cars fail after, at most, four

Compare.

or five years. For a long time this cosy arrangement between or their franchised outlets Japan's government and motor industry was considered by both parties to have Europe or to sell only in worked well. It has kept the country's production lines busy and Japanese consumers spending regularly on new cars while allowing izens of one EU country impecunious buyers in exercising their right, guardeveloping countries cheap anteed under EU competiaccess to their cast-offs.

happy to see used cars leav- franchised dealer in any to prevent a glut of secondhand vehicles dragging down new car price levels. monthly EU Commission But the grey tide is becoming a flood. And, to the car prices across the EU alarm of carmakers and showing disparities of up to

been changing direction. shores of Europe - and in -incentive for consumers to

side manufacturers' fran- and the belated realisation world, predicts Jonathan made in a region where the the large shipping groups increasingly severe criticism foul of this legislation. from consumer groups and

> New car prices in both North America and Japan, at are around 40 per cent lower than Europe's for broadly similar models.

"Grey" car imports need defining more precisely. They can be new or used. and enter markets by means other than through the franchised dealer networks of car manufacturers. Primarily they are handled by independent motor traders, although there is scope for individuals to make "personal", non-commercial

While the bulk of such imports tends to be of cheap, used cars, some independent traders - to the fury of companies such as Mitsubishi from high-performance or luxurious models sold in Japan but which carmakers have chosen, for marketing reasons, either not to sell in very limited quantities.

"Grey" cars thus differ from so-called parallel imports - cars bought by cittion laws, to buy the new car US manufacturers, too, are of their choice through a ing North America's shores other EU market where they

With the most recent sixcomparative study of new "official" importers - partic- 58 per cent between the southern Europe and the It is now reaching the dearest - the UK - the particular the UK - as the shop around has become

ularly in Europe - it has cheapest markets of

have carried more than 1m aged by financial crises; cur- that to obstruct such legitiso-called "grey" cars - new rencies weakened in compar-or used vehicles traded out-ison with those of Europe; the obligation of a Belgian dealer, say, to supply a Britchised dealer systems - to by independent traders of ish buyer with a right-hand-Volkswagen has been fined Ecul02m by the European Court of Justice for falling

> However, research by consumer groups indicates that some manufacturers are still North America and Japan, at doing their best to at least prevailing exchange rates, hinder the trade, while stopresult, they are mounting an increasingly militant campaign, seeking to dissuade the European Commission from renewing the Block Exemption from normal EU competition rules which the motor trade and industry has been enjoying for nearly

Developments in the UK Under pressure from the during the past few weeks "official" trade and industry, may have considerable influence over the outcome of the debate about whether the units of any one model per not the bargain they may current Block Exemption year. Although independent appear because parts and should be renewed when it traders have been selling servicing may be difficult.

expires in 2002, or whether Carmakers have learned the market should be opened up to greater competition.

Because, like Japan, the UK market is for right-handdrive vehicles, it has been the main target of Japanese "grey" imports. To date, however, they have been restricted, at least theoretically, to "personal" imports by individuals - circumvented to some extent by traders providing spurious personal import services or to commercial imports by independent traders within ping short of overtly flouting the UK government's competition laws. As a so-called Single Vehicle Approval (SVA) scheme. This has allowed "grey" cars to be imported commercially subject to them being able to meet government-devised tests showing they were suitable for use on UK roads even though they have not undergone the EU's own offi-

cial "type approval" testing. erto have been limited to 50

them at up to 30 per cent cheaper than equivalent officially-imported models, the "official" trade has argued strongly that they may not have equivalent specifica-tions to officially-imported models, and that they are

But the clamour for a "better deal" for consumers has been growing, and the UK lished a consultation paper indicating that the numericapable of meeting a stiffer form of SVA test will be

competition to the franchised dealer system from

Other developments have put the UK motor trade increasingly on the defencal limits on "grey" imports sive. At an inquiry into new car pricing held by an allparty group of MPs in Octo-ber, short shrift was given to remains open to serious lifted by next spring, open-ing up the prospect of real motor trade and industry

result mainly of exchange rates and the inability of EU governments to harmonise VAT and other purchase-related taxation.

An indication from the Office of Fair Trading that it is poised to refer to the Monopolies and Mergers Commission what it suspects is a complex monopoly operating to the trade, keeping prices higher than they would otherwise be, has done little to help the "offigial" motor trade's cause.

The European Consumers' Union (BEUC) has been watching developments closely and is likely to increase its own opposition to renewal of the Block Exemption.

The start of European monetary union next year may have some mitigating effect if, as the industry suggests, the introduction of the euro makes car pricing parent and reduces the differences between individual markets. Whether it will be enough to convince Brussels that consumers are not get-

gear

ALBION AUTOMOTIVE by Haig Simonian

Axle business rolling along

Acquisition of Glasgow business should strengthen AAM's position in world market

Rationalisation among tainly fit well. AAM makes acquires another.

American Axle & Manufacturing, the axles and components company created in 1994 after a in touch: a formal approach buy-out of various General Motors businesses, has made its first purchase, Albion Automotive.

Glasgow-based Albion, formed in 1993 from the axles and crankshafts business of the collapsed Daf group, once seemed an even stranger case than AAM's mixed bag of businesses. While the US group could at least rely on continuing business from GM, which was divesting non-core or unprofitable operations, Albion's sole customer had

just gone bust. Albion recovered after the revival of various ex-Daf operations, such as Leyland Trucks in the UK and the reconstituted Daf Trucks in the Netherlands. Gradually it gained new customers. including Perkins, the diesel engine specialist now owned by Caterpillar. Renewed cash-flow even allowed modest acquisitions, such as the axles manufacturing operation of Leyland Trucks and the transmissions unit of Volvo Bus in the UK.

The latest move marks a Straney, AAM's former vice-president of mergers and acquisitions, whose title and location are changing with the purchase of Albion. Mr Straney will now move to Glasgow as AAM's new vice-president for Europe.

strengthen AAM's position in the world axles business, dominated by big lic share offering. The promanufacturers such as Dana ceeds could partly have been and Meritor. Albion will add used to bankroll further 1,150 workers and £78m in sales to AAM's 8,500 workforce and turnover of

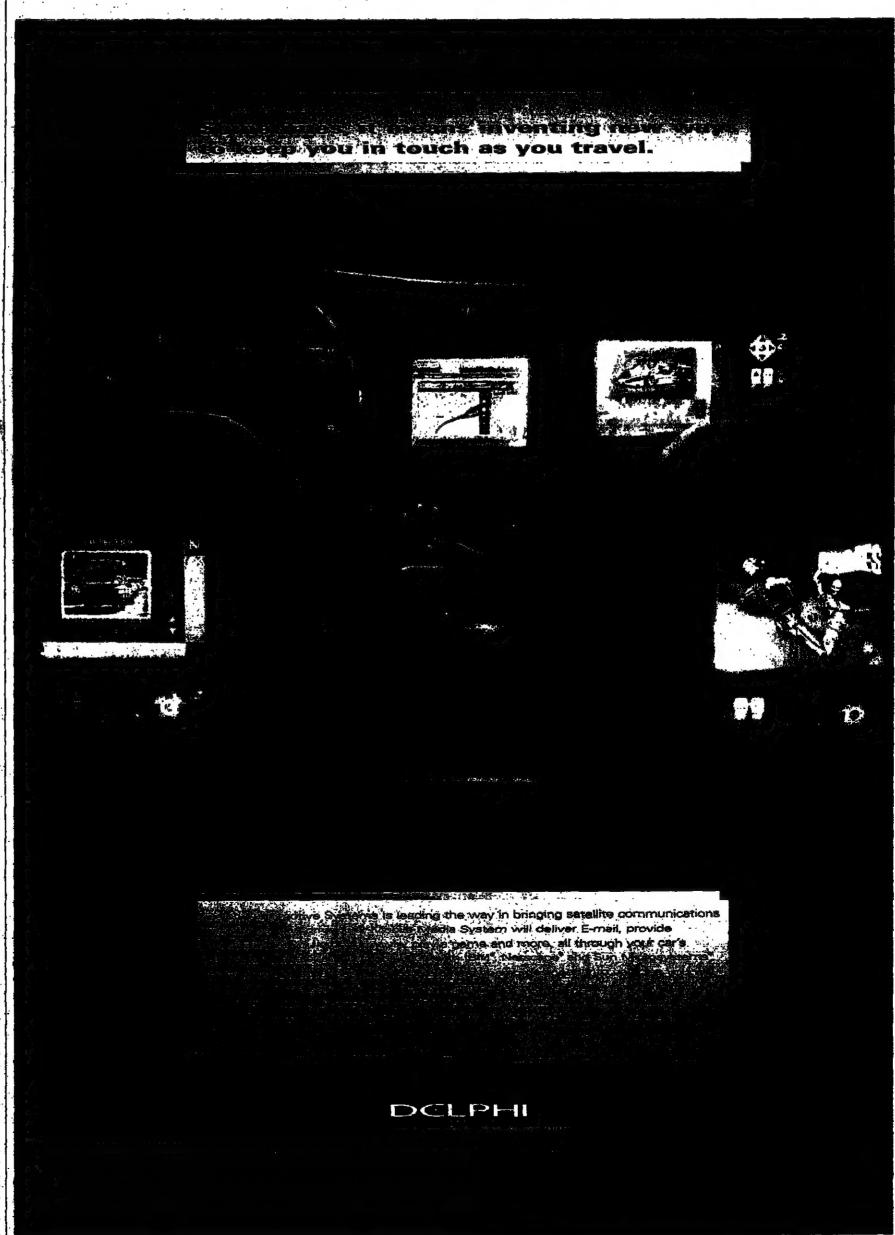
suppliers must really be parts for cars, people carri-moving when one are and sports utility management buy-out vehicles, while Albion speci & heavy trucks. The two companies first made contact in May 1994 and agreed to stay

was made this year. . The acquisition provides AAM, which has broadened its customer base to include seven vehicle makers, a further boost. Incorporating Albion into AAM means that, in one stroke, we sequire new capabilities - in particular, a proven track record in international market development," says Mr

Both sides stress Albion will be run independently under chief executive Jim Hastie. "While we have made tremendous progress as an independent components supplier, we can do much more with the strength of AAM supporting us," he says. AAM hopes Albion's experience in components for tracks and buse will now enable it to pitch for business in the highly competitive North American

The deal may not mark the end of AAM's international ambitions. In its first four years the company had its hands full at home coping with surging demand for logical step, says Mike parts because of the sports utility boom. "We really refrained from looking for outside ventures," Mr Stra-

ney says. How quickly it pushes ahead will depend partly. however, on US investors' taste for automotive paper. The deal, for an Earlier this year the com-undisclosed sum, should pany, which does not dis-Earlier this year the comclose its financial results. filed plans for an initial pubacquisitions. Now its plan may have been hit by the steep falls in cyclical stocks. "Let's say it's alive, but on



ndes

FT AUTO: STATISTICS

Europe's carmakers steer good course

Results for the first rine morths of 1999 suggest that in the course of the full year im Europe's car industry will record its " highest aggregate profit eince the peak of 1989."

Europe's committees are, for the most part, ing when we are so often told the

For a start, quary lackstry capacity figures which are reported in the trade press and Expose's car assembly classic and arriving of assite flours which is simply Surfestions, the canacity ofchire in

Now that If the lodestry is open go, profits should be falling. Nor does it

| | | | THE RE | /BUE | | | | 1. 1 | PROFIT | | | |
|------------------------|-----------|------------------|-------------------|--------------|------------------|--------------------|--------------|---------|---------------|----------------|------------------|------------|
| Europe | Correctly | 1998 | 1997 | Percentage (| change (1998/97) | 1998 | 1997 | | Percentage ch | mign (1998/97) | | Electric |
| CHAV | DM(m) | 46075 | 43830 | | 5.1% | . 1.2 | RJ. | | | | | . · Beat |
| Daimles-Benz (cars) | - DM(m) | 48200 | 38315 | | 20.6% | 2577 | B.A. | | | : | *Dalasier- | Best (car |
| VW Groep | DM(m) | 99950 | 84011 | | 19.0% | . 1507- | 852 | | | | 76.9% | "Wi Grou |
| Flat.Auto | Libra | 38735 | 37529 | -2.1% | | 38 | 1185 | -06.7% | | - | | That Aut |
| PSA · | FFr(m) | 165149 | 148907 | | 12.4% | . AL | R.J. | | - | | | PS |
| Renexit Automobile | FFr(m) | 145192 | 120692 | | 20.3% | R.2. | 11.2 | ٠. | | | Benedit | Automobile |
| Volvo Cara | SKr(m) | 73936 | 70005 | | 5.6% | 255 | 3273 | | -21.5% | | | Value Can |
| Jepen | | Figures en for 8 | he period her-Sep | | | Figures are for 18 | e period Jan | Sep | | | | Japan |
| Honda | ¥(bn) | 3133.5 | 2794.7 | | 12.1% | 158.2 | 126.5 | | | 25.1% | | · "Hood |
| Mazda | ¥(bri) | 1061,5 | 1025.3 | | 3.5% | 8.5 | -18.2 | | - 1 | 1 | 48.7% | · "Mezi |
| Mitsubishi (non-corse) | ¥(bn) · · | 1106.3 | 1319.5 | -16.2% | | -20.6 | 8.8 | -433.0% | | | "Machigh fr | ion-conta |
| Master (non-consol) | 19(bn) | 1838.5 | 1776.1 | -7.7% | | -32.5 | 38.5 | -18L4% | | | "Nesin J | 100 CODES |
| Toyota | ¥(br) . | 6200,0 | 5560.0 | | 11.5% | 192.7 | 240.9 | | -20.8% | | . : | Toyota |
| US · | | /grl-ta | plenter | | | April Sq. | Agender . | | | | | (15 |
| Chrysler | \$(m) | 48800 | 43700 | | 11.7% | 2737 | 1943 | | | 40.9% | | **Chrysla |
| Ford Actomotive | \$(ra) | 86879 | 91038 | -4.8% | | 3932 | 3373 | | | 16.6% | "Foot / | Automotive |
| 314 | S(m) | 114895 | 129277 | -11.1% | | 1136 | 4879 | -76.7% | | | | |
| | | Jerseny-G | Suprember . | | | January-S | apperint: | | | | "Operating youth | " Reipul |

| Western Europe | 1985 | 1996 | 1957 | (Jan-Gap) | 1,987 (Jan-Sap) | % change (Jan-Sep 18/17 |
|---------------------|-------|---------------|--------|-----------|--------------------|----------------------------|
| Austria | 59 | 97 | . · gt | 60 | 100 | -123 |
| Beigium | 1168 | 1144 | .1005 | 715 | 775 | -7.7 |
| Fintend | 0 | - 0 | 2.0 | 8.0 | 0 | |
| France | 2193 | 2277 | 2541 | - 1877 | 1571 | 123 |
| Germany | 3853 | 4048 | 4209 | 3876 | 3495 | 10.9 |
| Italy | 1422 | 1318 | 1563 | 1096 | 1170 | -8.9 |
| Netherlands | 100 | 145 | 197 | 181 | 133 | 36.5 |
| Perlogal | 73 | 153 | 186 | 137 | 132 | 4.0 |
| Spain | 1959 | 1942 | 2010 | 1810 | 1467 | 9.8 |
| Sweden | 244 | 224 | 290 | 253 | 272 | -6.8 |
| UK | 1532 | 1686 | 1696 | 1314 | 1247 | 5.3 |
| Total | 12903 | 13034 | 13732 | 11095 | 16431 | 5.4 |
| Eastern Europe | | | | | | : |
| Bulgarts*** | 2.0 | 1.0 | 0 | . 0 | . 0 | |
| Former CSFR | 189 | 240 | 321 | : 277 | 232 | 19.2 |
| Former USSR** | 898 | 888 | 1052 | 562 | 580 | . 0.4 |
| Former Yugoslavia** | 7.0 | -8.0 | 11.0 | 10.0 | 8.0 | 22.0 |
| Hungary** | 39 | -52 | 64 | 器 | 48 | . 22.9 |
| Poland*** | 366 | 393 | 388 . | 313 | 274 | 14.2 |
| Romania** | 92 | 117 | 128 | 101 - | 96 | 5.5 |
| Total | 1591 | 1009 | 1974 | 1322 | 1218 | 8.5 |
| | | . | | | | |

| N. America Free Trade Agreement | 1995 | 1996 | 1967 | 1996 (Jan-Sap) | 1997 (Jan-Sap) | % change (Jan-Gap 9669 |
|------------------------------------|-------|--------|------------------|-------------------|-------------------|---------------------------|
| Canada | 1357 | - 1292 | 1376 | . 1093 | 1058 | 3.4 |
| Mexico : | 697 | 801 | 839 | 646 | 631 · | 25 · |
| US | 6342 | 5070 | : 6004 | 4178 | 4480 | -6.7 |
| Total | 1397 | 8163 | 8219 | 5918 | 0168 | -4.1 |
| atin America | | | | | | |
| Argentino | 227 | 264 | . 325 | 262 | 254 | 8.5 |
| Brazil | 1303 | 1467 | 1676 | 1026 | 1304 | -21.3 |
| Rest of Latin America | G : | 3.0 | 11.0 | 10.0 | 9.0 | 11.1 |
| Total | 1530 | 1734 | 2013 | . 1218 | 1576 | -16.5 |
| sia : | | | | | | Y |
| Cities | 262 | 321 | . 378 | 244 | 1 277 | -11,9 |
| ode - | 394 | 471 | 474 | 364 | 367 | 0.8. |
| Japan : | 7811 | 7864 | 8492 | 5927 | 6437 | 7.9 |
| Adapsia" | 163 | 228 | 226 | 111 | 207 | -46.4 |
| South Korea | 2003 | 2265 | 2308 | 1138 | 1794 | -33.2 |
| Tahman** | 274 | .262 | 268 | 198 | 201 | -14 |
| Tatel | 10707 | 11411 | 12145 | 7963 | 9193 | -132 |
| Austratie** | 320 · | 333 | . 300 | 226 | 227 | -0.4 :- |
| South Africa** | 182 | 175 | 171 | 111 | 128 | -134 |
| Turkey | 207 | 190 | 225 | 183 - | 166 | 182 : |
| WORLD | 35538 | 36739 | 38779 | 28159 | 29111 | 3.3 |
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| Prosecution | | 100 | 5- 12 | 29 | - 26: | 12.5 |
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| Norwey - | 200 | 42 | 170 | 94 | 97 | 29 |
| | State Trees | 7 | 7190 | 186 | 161 | 15.6 |
| Portoget. | | 4 | | - N. | - 75 | 15.2 |
| 3000 | | M Tries | 23.000 | 183 | 163 | 12.3 |
| Bereden | 2/0 | | 47 E - 14 Marie | | 218 | 3.9 |
| Smitzeriess | 258 | 272 | - 11 | 225 | | 3.7 |
| OK. | 1946 | . 34 | 2121 | 1943 | 1317 | |
| - Officers | . 44 | - 1 | - 15- | 11 | 11 | 0 |
| Total | 12065 | 12810 | 15(13 | 11120 | 10396 | 7.0 |
| Eastern Europe | | -1: | 4. | · | | |
| | | 8.0 | 3.8 | 7 10 | 5.2 | 848 |
| Balgetie | | | | 159 | 168 | -64 |
| Former GSFR | 136 | 225 | 290 | 864 | 748 | 11.2 |
| Formate USSR* | 767 | 842 | 997 | | | |
| Femmer Yagoulani | - 65 | - 95 | 135 | 90. | 84 | 78.0 |
| Hoogary | 69 | 75 | 177. | 76 | 55 | 38.7 |
| Poleod | 264 | 7 77 | 478 | 405 | 371 | 2.4 |
| Homeole* | | | - 1 | 79 | . 72 | 9,4 |
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| | | 638 | 736 | 579 | 574 | 0.7 |
| Career | छ? | 676 | 726 | 579 | | 58.1 |
| Catago Mayoro | छ। 117 | 208 | 364 | 308 | 198 | 58.1 |
| Catago: Mastor: US | 117 8636 | 208 8521 | 364 8289 | 508 6185 | 198 6394 | 58.1. -3.3 |
| Chinele Nanco US Total | छ। 117 | 208 | 364 | 308 | 198 | 58.1 |
| Catago: Mastor: US | 117 8636 | 208 8521 | 364 8289 | 508 6165 7072 | 198 6394 7196 | 58.1 -3.3 -1.3 |
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CENTRAL-EASTERN EUROPE

Daewoo still in VW slipstream

auto group in western Europe, kept a firm lead in central-eastern Europe in the year, but Daewoo continued to gain ground, while Flat slipped further.

Overall, sales of vehicles up to 3.5 tonnes gross in the three quarters rose 9.4 per cent from 844,010 units in the corresponding 1997 period to 923,107 units in the nine countries compiling reliable data - Bulgaria, Croatia, the Czech Republic, Hungary, Lithuania, Poland, Romania, Slovakia and

Volkswagen, including the Audi, Seat, Skoda and VW marques, held its market share above 20 per cent, but its performance this year has suffered from a downturn in its main market, the Czech Republic. The German company's regional sales fell 1.3 per cent.

Daewoo, the South Korean manufacturer that has become a significant force by buying six state-owned automakers in the region since 1995, boosted nine-month sales 23.4 per cent. This growth cut VW's edge over Daewoo from 56,636 units last year to 22,031 units this year. Daewoo, Flat and VW

were the only groups to sell more than 100,000 units in

builds no light vehicles elsewhere in central-eastern Europe. Following the "big three" were Dacia, of Romania, with 76,905 units, General Motors (65,420), Renault

complex in Poland, but it

the region during January to

Together they captured 55.6

Meanwhile, Flat's sales

153,402 units in 1998. The

which includes Alfa Romeo.

narrow focus in the region. It owns a massive carmaking

158,424 units in 1997 to

Fiat, Iveco, Lancia and several speciality brands, is paying the price for its

Italian group,

(51,344), and

September this year.

Peugeot-Citroen (46,688). VW has built its market on a broad presence in the region. The German group still centres its strategy on the Czech brand, Skoda, but it also assembles models from each of its four marques in Poland. It makes gearboxes and VW cars in Slovakia, and it assembles

Hungary. Daewoo could overtake VW early next year if it continues to make progress in Romania, where it is the only foreign investor to produce cars.

Audi's new TT roadster in

Ryan James Tutak

New light vehicle registration

181,650 48,796 4,732 18,820 118,702 168,019 153,402 6,110 78,906 45,420 22.9 61,344 46,886 26,726 46,642 46,536 52,453 20,221 232,072 230,072 17,730 115,889 110,680 13,620 9,877 8,778 9,196 1,235 2,335 2,531 4,936 2,335 2,531 189,366 34,286 2,330 189,366 34,286 5,288 +15.9 +14.9 +21.9 +15.9 +15.3 +15.3 +58.4 +58.2 +75.8 +30.9 +33.5 +13.6 +82 -17,75 +29,8 +36,0 +5,3 +8,8 +26,0 +73,7 +61,2 442,728 118,096 100,645 96,890 55,756 53,624 46,570 8,889

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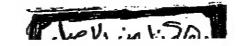
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78 2391 PTI



Bigger can be better . . . as well as faster

The days of departments being scattered around various buildings are coming to an end. Manufacturers are reaping the rewards of working under one roof

than output, profits, or even executives are starting to brag about the size of their technology centres.

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Two of the largest have been taking final shape in recent months. In Guyancourt, on the western hectares of farmland have given way to a group of low-lying buildings forming Renault's new Technoceptre.

Just south of Stuttgart, a similarly grandiose project is taking shape at Sindelfingen. There, Daimler-Benz is building a new headquarters for its car design and development work. The two centres have

much in common Rensult's Technocentre, which claims to have been the biggest building site in Europe, will eventually house 7,500 engineers, designers and supplier staff. Daimler-Benz's centre, though more compact, will have about as many on site when it fully opens in 2000. With the design team already installed, most installed, most of the new arrivals will come during next year.

competitive Both complexes symbolise development times and cut their vehicles' performance, costs by concentrating and co-ordinating R&D much more efficiently than in the

Renault's FFr5.5bn Technocentre brings together the group's entire car development staff, outskirts of Paris, 150 formerly split between numerous Parislan locations. Daimler-Benz's OM1.3bn complex is as ambitious: the new site will eventually house personnel previously split between 18 sites. Separately, the company is centralising its 3,000-strong engine, gearbox and axle R&D activities at a second. smaller plant. Untertürkheim Approached via

an artificial lake and fountains which would not look out of place at Versailles, the shallow slanting columns of Renault's Technocentre are far more striking than Daimler-Benz's more sober complex. The Germans have, however, allowed themselves a little more levity in the fan-shaped design centre styled by Italy's Renzo Plano, one of Europe's best known architects.

buildings housing the falling to 24 months. platform teams for their products. Unlike the functional structures of the engineers, manufacturing

specialists and finance and marketing men come together in single platform or product groups. Renault even underlines the matrix nature of the teamwork work by calling this part of its complex the "hive".

Daimler-Benz, by contrast, refers to its centre as the "city of short cuts", to emphasise

interconnection between different activities and the ease of access for those working there. "We will become much faster in processes - although speed for itself was not our first aim," says Helmut Petri, the group's head of passenger car development. "Product development has already got 30 per cent faster, but we see acope to do more." Renault hopes the

advantages of bringing together so many people on one site will eventually help to save FFr1bn a year on its

Whatever their external R&D budget. Product benchmark has crept into carmakers' determination to differences, the hearts of development times are motor industry talk. Rather accelerate product both centres are much the expected to be reduced to 36 same. Both have beehive-like months by 2000, eventually

Both centres exemplify an motor industry as carmakers past, this is where designers, try to concentrate their R&D activities and move from sequential development work in functional departments "simultaneous engineering", where the processes involved in developing a new model are conducted in parallel to save time.

The real model for the latest generation of design and R&D centres has been Chrysler's technical centre at Auburn Hills, north of Detroit. Now the group's beadquarters after the construction of an adjoining 15-storey management tower, Chrysler's site pioneered the concept of multi-disciplinary teams rather than keeping them in functional departments. Guyancourt,

Chrysler's decision to build on a greenfield site also provided room for extensive outdoor facilities. Natural light is always useful to

VAW ALUMINIUM

Aluminium cylinder heads and blocks for the Zentec

SE engine used in Ford's

The story of how VAW

lustrates the methodical

approach some aluminium

it was only in 1992 that

VAW decided to break into

the business. Today 75 per

cent of Opel cars have VAW

cylinder heads, and its other

customers include BMW/

Rover, Volkswagen-Audi, Rolls-Royce and the MCC

and carefully-considered

producers have been

taking when targeting

industry.

Smart car.

new Focus car are

Aluminium's plant at

Dillingen in Germany

produced at VAW

111

new car in the daylight. For engineers, too, greenfield complexes offered scope for

not even the most powerful and, incidentally, should adjactent to the massive supercomputer modelling help to keep prototype can beat seeing a planned products further away from the prying lenses of big adjacent test tracks. decided to shoehorn its new That simplifies logistics, centre on spare land

Sindelfingen works. "We thought of going for a greenfield site, but eventually decided to put it Daimler-Benz, however, next to the factory,"

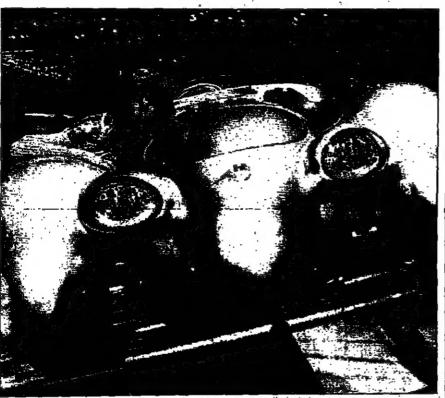
shorten the distances." Whether brownfield or green, the most striking similarity between the French and German centres is that both boast an actual production line on site - still something of a novelty. The production facilities, although obviously far short of a full-scale factory, are meant to replicate the conditions of the shop floor where a new model will be built. A bistory of botched

bears witness to the wisdom of trying to get the job done properly from the start. Motoring history is littered with examples of carmakers having to add expensive changes, much slower rampuns to full production, or even costly recalls as debugging has had to be postponed to final production rather than the development stage. 'It is much better to make the changes at an early stage than only when the car goes

launches across the industry

into production," says Pathead of styling and quality. Renault is already reading some of the benefits, full voltime production of its new hatchback, launched carlier this year, was reached within three months, com-

The use of aluminium in cars is poised for substantial growth for at least the next 25 years. Kenneth Gooding reports on how some groups are positioning themselves to take full advantage of current trends



oduced Rinspeed E-Go Rocket, with a V8 aluminium engine, was unveiled this year AP

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In 1992 VAW's revenue from cylinder head and DM100m. Today it is a core business and generates DM600m a year. According to Dieter Braun, the board member responsible for VAW's castings division, by 2002 annual revenue will be at least DM1bn and will have grown 10 times in as many

He insists car engine makers inevitably will make came to have this business the transition from using iron to aluminium. "We know about all the new engines under development so we can have high confidence in customers in the automotive that forecast," he says.

There are other confident predictions Mr Braun can make because of VAW's privileged view of the car In Europe at present, 95

per cent of cylinder heads in car engines are made from aluminium and so are 35 per cent of the blocks. In North America, 80 per cent of the heads and 50 per cent of the blocks are made from the lightweight metal. "We feel that by 2003 at least 95 per cent of the heads and

50 per cent of the blocks will be aluminium in both Europe and North America, says Mr Braun.

Heads, blocks become a core business

When in 1992 VAW began looking to see how it might benefit from the substantial increase in the use of aluminium by the car makers, most of its rivals were concentrating on how they could generate extra business by making car body structures. VAW

wanted to avoid having to go into direct competition with them. Neither did it wish to compete with the carmakers' core operations. It also wanted to be in a business where the barriers to entry were high in terms

of the technology involved and the investment required Aluminium castings for cylinder heads and blocks fitted these requirements. Production of these items is not core business for the automotive groups, and no other aluminium company

castings of this sort. Also, VAW is able to offer patented technology which enables aluminium cylinder heads to survive without the usual steel "crack

preventers" and for duminium blocks to be used without the usual grey iron

As for investment, VAW spent \$150m to establish the Dillingen plant, which is almost totally automated. Another \$50m was spent to the Zentec parts, VAW has more than doubled capacity at its VAW motorcast plant (formerly West Yorkshire Foundries) at Leeds in the UK, built a DM60m plant in Hungary, and another for DM30m in Linz, Austria. It has a joint venture in Mexico, and has built a \$60m facility there to make

aluminium heads and blocks

for an engine that will go

into a new range of General

Motors light trucks and In 1993, having decided which business it wanted to

be in, VAW bought Isenwerke Brühl in Germany, a big supplier of iron cylinder heads and blocks but which also had two satellite companies producing aluminium heads and blocks, one of them being West Yorkshire Foundries.

IB at the time was

negotisting for a joint venture with Ford to build a new castings facility in Europe. VAW continued the negotiations but Ford changed its mind. It sald IB could have the business if it would build the foundry. Mr Braun says the very tight time schedule - Ford wanted the first castings by 1995 - meant that VAW had to quickly scan Europe for a suitable location. It settled on Dillingen because of its steel working tradition.

GM deal helps protect from price volatility

Alcan, the world's second-biggest aluminium group, has spent \$200m during the past 10 years in developing technology and partnerships with car makers. Last month It revealed a "multi-billion dollar", 10-year supply deal for aluminium with General Motors, the world's biggest automotive group.

The two groups will explore new and expanding uses for aluminium, including aluminium intensive vehicles", they said. However, the most important aspect, as far as GM is concerned, is that a way has been found to eliminate much of aluminium's price volatility. Car makers worry about this causing havoc with their costs in future should they incorporate much more aluminium in their

The deal apparently does not involve Alcan receiving more or less than prices quoted on the London Metal Exchange, but GM has signed up with a big financial institution for a long-run hedging strategy to avoid exposure to the extremes of the metal price

The arrangement is . . thought to involve Alcan supplying mainly sheet products to GM. Prices will be based on the cost of primary aluminium on the LME plus a conversion cost from primary to sheet. This, in turn, will be based on the cost of production plus a

return on capital. GM has the right to substitute ingot for sheet products, a flexibility it needs since it is still by no . means certain that car body sheet will take off as the preferred material in cars. Steel and composites remain

: Nevertheless, Alcan already is a big supplier of aluminium sheet for "closures" such as doors, trunk (boot) and bonnet (hood) lids as well as enders (bumpers). Jacques Bougie, Alcan's president, ats that present demand for these items does not show just how well his company is positioned to take advantage of growth in demand from the carmakers for aluminium sheet beyond

"From 2000 or 2002." growth from sheet - the skin of the car - is where we are positioned to benefit. Not many people realise that the structure of an aluminium Intensive vehicle, the space frame, is 40 per cent sheet. For high-volume models, Alcan's structured vehicle technology involves 99 per cent sheet.

"And we are the leading supplier of sheet around the world. We've patented the structure technology and been working with manufacturers towards its introduction."

He suggests the growing automotive market for aluminium sheet represents potential annual sales of 300,000 tonnes for Alcan within a decade. That represents nearly 16 per cent of the 1.9m tonnes of fabricated aluminium products Alcan shipped last

In October Alcan launched a new organisation, Alcan Global Automotive Products. which will integrate its global strategy for the automotive market. We will co-ordinate | capacity of 250,000 tonnes.

efforts in a global organisation to meet the needs of customers world wide," says Mr Bougie. Donald Macmillan, who since 1994 has been Alcan's general manager of automotive products in Detroit, will head the new

Farmington Hills, Michigan.

in Europe, the use of aluminium sheet - as distinct from casting or extrusions - in cars accounts for about 22,000 tonnes a year at present. This is expected to rise to 70,000 tonnes by 2002 and to 150,000 tonnes by 2005, according to Roland Harings, manager of sales and marketing for automotive sheet in Europe. If the European car inclustry went ahead with all the plans on all its drawing boards, nearly 1m "aluminium intensive" cars a year would be produced . within a decade.

Alcan's German subsidiary has already taken action to answer the obvious question from carmakers: will there be enough aluminium, particularly aluminium sheet. available if we go down that route? Five years ago it bought

the Nachterstedt rolling mill in what was once east Germany from the Treuhandenstalt, the privatisation organisation, specifically to meet potential demand for aluminium sheet from the automotive

About DM271m has been spent to upgrade and expand the plant which now has an annual rolling ...





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14:51

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